Annual Report 1985

Bell Canada Enterprises Inc.

Notice of Annual Meeting 1986 and Information Circular

Bell Canada Enterprises Inc.

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To ensure representation of your shares at the meeting, please complete, sign and return your proxy form as soon as possible.

It is important that your shares be represented at the meeting and that your wishes be made known to the directors. This will be assured, whether or not you attend the meeting, if you complete and sign the enclosed proxy form, and return it as soon as possible in the postage-paid envelope provided.

If you are present at the meeting and choose to vote in person on any ballot that may be called, your proxy will not be used; if you do not attend or do not wish to vote in person, your proxy will be voted for or withheld from voting in accordance with your wishes as specified thereon in any ballot that may be called at the meeting.

Proxies to be used at the meeting must be sent by mail to Box 2250, Tour de la Bourse, Montreal, Quebec, Canada H4Z 1K7 or delivered in person at 800 Square Victoria, 2nd floor, Montreal, Quebec. Shareholders residing outside Canada should mail their proxies to: Bell Canada Enterprises Inc., Box 127, Rouses Point, N.Y. 12979, U.S.A.

Canadian Mail Service Interruption

If there is mail service interruption in Canada prior to mailing by a Canadian shareholder of a completed proxy to BCE, it is recommended that the shareholder deposit the completed proxy, in the envelope provided, at either of the two BCE offices:

800 Square Victoria
2nd Floor
Montreal

483 Bay Street
2nd Floor
Toronto

or at any of the following offices of the Canada Trust Company which has been specially appointed as agent of BCE for such purpose:

Alberta
311 – 6th Avenue S.W.
Calgary

10038 Jasper Avenue
Edmonton

British Columbia
701 W. Georgia Street
Vancouver

1125 Douglas Street
Victoria

Manitoba
433 Portage Avenue
Winnipeg

New Brunswick
426 Queen Street
Fredericton

53 King Street
Saint John

Newfoundland
240 Water Street
St. John's

Nova Scotia
1646 Barrington Street
Halifax

Ontario
39 James Street S.
Hamilton

361 Richmond Street
London

30 Metcalfe Street
Ottawa

Prince Edward Island
129 Kent Street
Charlottetown

Quebec
2925 chemin Ste-Foy
Quebec

Saskatchewan
1778 Scarth Street
Regina

Shareholders residing outside Canada will not be affected by a Canadian mail service interruption if they use the envelope provided by BCE for the return of their proxy.

All proxies must be received by the Treasurer, Bell Canada Enterprises Inc., or its agent, prior to 12:00 noon on April 29, 1986.

Dear Shareholder:

On behalf of the Board of Directors, I cordially invite you to attend the 1986 annual meeting of shareholders which will be held at the Roy Thomson Hall, Toronto, Ontario, on Thursday, May 1, 1986, at 10:00 a.m. You will find an admission ticket attached to your proxy form.

The items of business to be acted upon by our shareholders are set forth in the Notice of Meeting and Information Circular. Your participation in the affairs of the Corporation is most important, regardless of the number of shares you hold. Therefore, if you are unable to attend in person, please date, sign and promptly return the enclosed proxy form in the envelope provided for this purpose. If you intend to be present at the meeting, you may nevertheless find it convenient to express your views in advance by returning the proxy form duly completed.

Following the custom of past meetings, we shall review with you the business and affairs of the Corporation and our expectations for the future. You will also have an opportunity to meet your directors and executives.

We look forward to seeing you at the meeting.

Sincerely yours,

A. Jean de Grandpré,
Chairman of the Board

March 6, 1986

Notice of Annual Meeting 1986

The annual meeting of the shareholders of Bell Canada Enterprises Inc. will be held at the Roy Thomson Hall, 60 Simcoe Street, Toronto, Ontario, on Thursday, May 1, 1986, at 10:00 a.m., for the following purposes:

- to receive the consolidated financial statements of Bell Canada Enterprises Inc. for the year ended December 31, 1985 and the report of the auditors on the financial statements;
- to elect directors for the ensuing year;
- to appoint auditors to hold office until the close of the next annual meeting; and
- to transact such other business as may properly be brought before the meeting.

Shareholders registered at the close of business on March 12, 1986 will be entitled to receive notice of the meeting.

Proxies to be used at the meeting must be received by the Treasurer, Bell Canada Enterprises Inc., by mail at Box 2250, Tour de la Bourse, Montreal, Quebec, Canada H4Z 1K7, or in person at 800 Square Victoria, 2nd floor, Montreal, Quebec, or by agents appointed by the Corporation for such purpose, prior to 12:00 noon on April 29, 1986. Shareholders residing outside Canada should mail their proxies to: Bell Canada Enterprises Inc., Box 127, Rouses Point, N.Y. 12979, U.S.A.

By order of the Board of Directors,

Guy Houle,
Vice-President and
Corporate Secretary

Montreal, March 6, 1986

Information Circular and Proxy Statement Dated February 14, 1986

General

This Information Circular and Proxy Statement is furnished in connection with the solicitation by the management and the Board of Directors of Bell Canada Enterprises Inc. ("BCE" or the "Corporation") of proxies to be used at the annual meeting of the shareholders of the Corporation to be held in Toronto, Ontario, on May 1, 1986, and at any adjournment thereof. Solicitation of proxies will be by mail beginning on or about March 14, 1986, supplemented by telephone or other personal contact by employees of the Corporation at nominal cost, and all costs thereof will be borne by the Corporation. The principal executive offices of the Corporation are located at 800 Square Victoria, 44th floor, Montreal, Quebec.

Provisions Relating to Voting

As of the date of this circular, ownership of the Corporation was represented by 247,401,521 common shares, 15,494,389 first preferred shares and 1,537,427 second preferred shares. Bell Canada, a wholly-owned subsidiary of BCE, owns 100% of the second preferred shares and, under applicable corporate legislation, cannot exercise the voting rights attached to such shares.

Each share entitles the registered holder thereof to one vote on each ballot taken at any general meeting of the shareholders of the Corporation; such votes may be given in person or by proxy. The shareholders have the right to elect all directors of the Corporation, to appoint auditors, and to vote for, vote against or abstain from voting on any other matter of business that may properly be brought before the meeting.

Only owners of shares registered on the books of the Corporation at the close of business on March 12, 1986, or their duly appointed proxies, will be entitled to attend or to register a vote at the annual meeting, unless shares are transferred after that date and the transferee establishes that he owns the shares and demands by the close of business on April 21, 1986 that the transferee's name be included in the list of shareholders entitled to vote.

Shares may either be voted for or withheld from voting in the election of directors and the appointment of auditors. On other matters, the shareholder may either vote for, vote against or abstain from voting on the proposal.

Provisions Relating to Proxies

All shares represented by properly executed proxies received by the Corporation prior to 12:00 noon on April 29, 1986 will be voted for or withheld from voting, in accordance with the wishes of the shareholder as specified thereon in any ballot that may be called at the meeting. Canada Trust Company will act as official scrutineers at the meeting.

The form of proxy enclosed herewith, when properly signed, confers discretionary authority on the person or persons named as proxy with respect to any matter on which no choice is specified, to all amendments or variations to matters identified in the notice of meeting and to any other matter which may properly come before the meeting.

The directors and officers of the Corporation are not aware of any matter other than those indicated in the notice of meeting which may be submitted to the meeting for action.

The instrument appointing a proxy must be in writing and must be signed by the shareholder or by an attorney authorized in writing. In addition to any other manner permitted by law, a shareholder who has given a proxy may revoke it by signing in person or by an attorney authorized in writing, a written instrument and by depositing such instrument with the Treasurer of the Corporation at 800 Square Victoria, 2nd floor, Montreal, Quebec, at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, or with the chairman of the meeting on the day of the meeting, or any adjournment thereof.

The Corporation may appoint agents in cities other than Montreal for the purpose of facilitating the delivery of proxies; if such agents are appointed, the Treasurer will supply their names and addresses on request.

Shareholder Proposals

Proposals intended for inclusion in next year's Information Circular and Proxy Statement pursuant to applicable Canadian law should be sent to the Vice-President and Corporate Secretary, Box 321, Tour de la Bourse, Montreal, Quebec, Canada H4Z 1G8 and generally must be received before January 31, 1987; the deadline for such proposals pursuant to United States securities laws is October 17, 1986.

Business to be Transacted at the Meeting

(See Notice of Meeting, page 2)

■ Presentation of Annual Report and Financial Statements

The consolidated financial statements of BCE for the year ended December 31, 1985, and the report of the shareholders' auditors thereon will be placed before the meeting.

Additional copies of the Annual Report, in English or in French, may be obtained from the Vice-President and Corporate Secretary, Box 321, Tour de la Bourse, Montreal, Quebec, Canada H4Z 1G8.

■ Election of Directors

(See item 1 on proxy form)

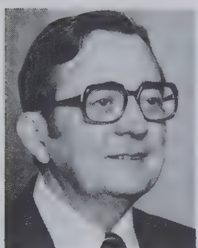
A Board of 20 directors is to be elected to hold office until the next annual meeting of the shareholders.

The persons nominated in the list which follows are, in the opinion of management, well qualified to direct the Corporation's activities for the ensuing year. Except for Messrs. R.C. Frazee and W. Chippindale, all are present directors of the Corporation. All nominees have formally established their eligibility and willingness to serve. Messrs. R.C. Frazee and W. Chippindale are nominated to succeed Mr. R.R. Latimer who resigned in June 1985 and Mr. J.W. Kerr who has reached the age limit for service on the Board and is therefore not eligible to stand for re-election.

It is the intention of the persons whose names are printed in the enclosed proxy form to vote such proxy for the election of the nominees listed herein unless specifically instructed on the proxy form to withhold such vote.

If, prior to the annual meeting, any of the listed nominees should become unavailable to serve, the persons designated in the proxy form will have the right to use their discretion in voting for a properly qualified substitute.

Nominees for Election as Directors and Beneficial Shareholdings in BCE, its Subsidiaries and Associated Companies* (See notes page 9)

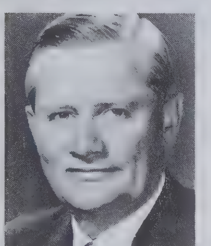


Marcel Bélanger, O.C., F.C.A., of Quebec, Quebec, age 65, is President of Gagnon et Bélanger Inc., a management consultant firm, and is a former President of the Canadian Institute of Chartered Accountants. He has served as a director since March 1969, is Chairman of the Audit Committee and a member of the Investment Committee.

BCE common	5,881
BCE first preferred	1,000
NTL common	4,300

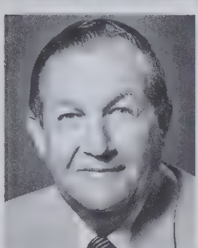
George Allan Burton, D.S.O., C.M., E.D., of Milton, Ontario, age 71, is a former Chairman of the Board and Chief Executive Officer of Simpsons Limited, retail department stores. He has served as a director since May 1974 and is a member of both the Management Resources and Compensation Committee and the Pension Fund Policy Committee.

BCE common	12,161
BCE first preferred	1,600
NTL common	1,950



Warren Chippindale, F.C.A., of Toronto, Ontario, age 57, has served as Chairman and Chief Executive Partner of Coopers & Lybrand (Canada), an accounting firm, for the past fifteen years and during that period has also served for five years as Chairman of Coopers & Lybrand (International); he will retire as an active partner in March 1986.

BCE common	100



Joseph Victor Raymond Cyr of Montreal, Quebec, age 52, is Chairman of the Board, President and Chief Executive Officer of Bell Canada, a supplier of telecommunications services and equipment. He has served as a director since October 1984. He is also a director of Imperial Oil Limited.

BCE common	1,750
NTL common	200
CI common	1,000

Charles William Daniel, O.C., of Willowdale, Ontario, age 60, is a director and former President and Chief Executive Officer of Shell Canada Limited, an integrated petroleum company. He has served as a director since April 1983 and is a member of the Investment Committee.

BCE common	1,100
NTL common	600
Daon common	84

**Names abbreviated as indicated in brackets: Northern Telecom Limited (NTL), TransCanada PipeLines Limited (TCPL), Daon Development Corporation (Daon) and Computer Innovations Distribution Inc. (CI)*

Nominees for Election as Directors and Beneficial Shareholdings in BCE, its Subsidiaries and Associated Companies* (See notes page 9)

Albert Jean de Grandpré, O.C., Q.C., of Montreal, Quebec, age 64, is Chairman of the Board and Chief Executive Officer of the Corporation. He has served as a director since July 1972, is Chairman of the Investment Committee and a member of the Pension Fund Policy Committee. He is also a director of Bell Canada, NTL, TCPL, The Seagram Company Ltd. and Chrysler Corporation.

	(H)
BCE common	13,397
NTL common	3,000
TCPL common	1,220

Edmund Bacon Fitzgerald of Nashville, Tennessee, age 60, is Chairman of the Board and Chief Executive Officer of NTL, a designer and manufacturer of telecommunications equipment, including integrated business systems and terminals. He has served as a director since October 1984.

	(I)
BCE common	1,000
NTL common	31,565

Rowland Cardwell Frazee of Town of Mount Royal, Quebec, age 64, is Chairman of the Board and Chief Executive Officer of The Royal Bank of Canada. He is also a director of Continental Corporation and International Minerals & Chemical Corporation.

BCE common	350
TCPL common	100

John Peter Gordon, O.C., of Mississauga, Ontario, age 65, is a director and former Chairman of the Board and Chief Executive Officer of Stelco Inc., a steel company. He has served as a director since April 1982, is Chairman of the Pension Fund Policy Committee and a member of the Management Resources and Compensation Committee. He is also a director of INCO LIMITED.

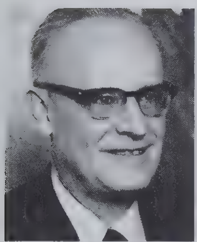
BCE common	5,413
NTL common	817
TCPL common	1,099

Henry Clifford Hatch of Windsor, Ontario, age 69, is Chairman of the Executive Committee of the Board of Directors of Hiram Walker Resources Ltd., a producer of distilled spirits, gas and oil. He has served as a director since April 1974 and is a member of the Management Resources and Compensation Committee.

BCE common	4,162
NTL common	1,400
TCPL common	300

**Names abbreviated as indicated in brackets: Northern Telecom Limited (NTL), TransCanada PipeLines Limited (TCPL), Daon Development Corporation (Daon) and Computer Innovations Distribution Inc. (CI)*

Nominees for Election as Directors and Beneficial Shareholdings in BCE, its Subsidiaries and Associated Companies* (See notes page 9)



Paul Henri Leman, O.C., of Outremont, Quebec, age 70, is a former Vice-Chairman of Alcan Aluminium Limited, an industrial company. He has served as a director since April 1976 and is a member of the Audit Committee. He is also a director of Bell Canada.

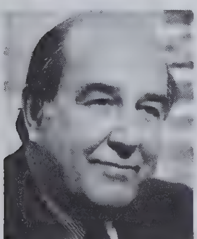
BCE common	1,000

Helen Lavina Margison of Toronto, Ontario, age 68, is a former President of a private investments firm dealing in securities and real estate. She has served as a director since April 1978 and is a member of the Investment Committee.

BCE common	1,530

Edward Neil McKelvey, Q.C., of Saint John, New Brunswick, age 60, is a partner in the law firm of McKelvey, Macaulay, Machum and is a former President of The Canadian Bar Association and the International Bar Association. He has served as a director since April 1973 and is a member of both the Audit Committee and the Pension Fund Policy Committee.

BCE common	1,200
NTL common	615



John Henderson Moore, F.C.A., of London, Ontario, age 70, is a former Chairman of the Executive Committee of the Board of Directors of London Life Insurance Company. He has served as a director since March 1966 and is a member of both the Audit Committee and the Investment Committee. He is also a director of Bell Canada, NTL and Canadian Pacific Limited.

	(J)
BCE common	6,600
NTL common	11,300
NTL preferred	500
TCPL common	5,000

Gérard Plourde, O.C., of Montreal, Quebec, age 70, is Chairman of the Board of U A P Inc., an automotive parts distributor. He has served as a director since January 1973 and is a member of the Audit Committee. He is also a director of Bell Canada, NTL and Gulf Canada Limited.

BCE common	14,063
NTL common	900
TCPL common	1,400
TCPL preferred	500

**Names abbreviated as indicated in brackets: Northern Telecom Limited (NTL), TransCanada PipeLines Limited (TCPL), Daon Development Corporation (Daon) and Computer Innovations Distribution Inc. (CI)*

Nominees for Election as Directors and Beneficial Shareholdings in BCE, its Subsidiaries and Associated Companies* (See notes page 9)

Robert John Richardson, Sc.D., of Westmount, Quebec, age 57, is President of the Corporation. He has served as a director since January 1978 and is a member of both the Investment Committee and the Pension Fund Policy Committee. He is also a director of Bell Canada, NTL and TCPL.

BCE common	780
NTL common	500
TCPL common	1,000

Lucien Gilbert Rolland, O.C., of Montreal, Quebec, age 69, is Chairman of the Board and Chief Executive Officer of Rolland inc., a manufacturer and distributor of fine papers. He has served as a director since July 1965 and is a member of the Management Resources and Compensation Committee. He is also a director of INCO LIMITED, Canadian Pacific Limited and Canadian Fund, Inc.

BCE common	2,576
TCPL first preferred	100

Alastair Henry Ross of Calgary, Alberta, age 62, is President of Allaro Resources Ltd., a private oil and gas exploration company. He has served as a director since May 1985 and is a member of the Audit Committee. He is also a director of Canadian Fund, Inc.

BCE common	1,000

Louise Brais Vaillancourt, C.M., of Outremont, Quebec, age 59, is President of the Fondation Armand-Frappier, a non-profit organization involved in the funding of various research programs for the Institut Armand-Frappier. She has served as a director since January 1975 and is a member of the Audit Committee. She is also a director of Carling O'Keefe Limited.

	(K)
BCE common	298
NTL common	250

Lynton Ronald Wilson of Mississauga, Ontario, age 45, is President and Chief Executive Officer of Redpath Industries Limited, sugar refiners. He has served as a director since May 1985 and is a member of the Investment Committee. He is also a director of Massey-Ferguson Limited.

BCE common	200

**Names abbreviated as indicated in brackets: Northern Telecom Limited (NTL), TransCanada PipeLines Limited (TCPL), Daon Development Corporation (Daon) and Computer Innovations Distribution Inc. (CI)*

Notes:

A) BCE succeeded Bell Canada as the publicly-held parent company of the group on April 28, 1983. References to the service of the aforementioned persons as directors prior to such date constitute references to their service on the Board of Bell Canada.

B) All the nominees have held the positions disclosed or other executive positions with the same or affiliated firms or organizations during the past five years with the following exceptions: Mr. R.J. Richardson was, prior to May 1984, an Executive Vice-President of E.I. du Pont de Nemours and Company, a chemical manufacturer; Mr. L.R. Wilson was, prior to June 1981, Deputy Minister, Ministry of Industry and Tourism, Government of Ontario.

C) In addition to the principal position held by each nominee, directorships are also included on the boards of companies with a class of securities registered pursuant to Section 12 of the United States Securities Exchange Act of 1934 or subject to the requirements of Section 15(d) of the Act or registered under the United States Investment Company Act of 1940.

D) Only memberships on standing committees of the Board of Directors of BCE have been indicated.

E) The nominees' shares listed may include shares owned by members of their immediate families, estates and family corporations. In addition to the disclaimer indicated in Note K, the number of shares shown as being owned by certain directors may include certain shares for which such directors have disclaimed beneficial ownership.

F) Except as indicated in Notes H, I and J, the nominees, and/or persons referred to in Note E, have sole voting and investment power with respect to the securities listed.

G) Certain of the aforementioned directors also hold qualifying shares entitling them to serve as directors of Bell Canada, a wholly-owned subsidiary of BCE; these shares have not been included.

H) The shares listed include 5,172 BCE common shares, 3,000 NTL common shares and 1,200 TCPL common shares as to which Mr. de Grandpré shares investment and voting power with his wife and his four children.

I) The shares listed include 1,200 NTL common shares held in trust for the benefit of Mr. Fitzgerald's children and as to which Mr. Fitzgerald shares investment and voting power with several trustees and 13,000 NTL common shares as to which Mr. Fitzgerald shares investment and voting power with the co-executor of an estate in which neither Mr. Fitzgerald nor any member of his immediate family has any vested interest.

J) The shares listed include 1,500 BCE common shares and 1,800 NTL common shares as to which Mr. Moore shares investment and voting power with co-trustees.

K) The shares listed exclude 1,300 BCE common shares held by an estate of which Mrs. Vaillancourt is one of the beneficiaries and of which her husband is one of the four testamentary executors; Mrs. Vaillancourt disclaims beneficial ownership of such shares.

■ Appointment of Auditors

(See item 2 on proxy form)

A firm of auditors is to be appointed by vote of the shareholders at the annual meeting to serve as auditors of the Corporation until the close of the next annual meeting. The Board of Directors, on the advice of the Audit Committee, recommends that Touche Ross & Co. be reappointed as the shareholders' auditors. This firm and its predecessor firms have served the Corporation and its shareholders, as well as Bell Canada, in this capacity since 1881.

One or more representatives of Touche Ross & Co. will attend the annual meeting, will be given an opportunity to make a statement if they so wish and will be available to answer questions.

■ Other Business

The Chairman will report on recent events of significance to the Corporation and on other matters of interest to the shareholders and will invite questions and comments from the floor.

Pertinent Information Concerning the Directors

Board Attendance

There were fifteen regularly scheduled and special meetings of the Board of Directors held in 1985. All the incumbent directors attended seventy-five percent or more of the aggregate of all Board meetings and of meetings held by all committees of the Board on which they served, except Messrs. E.B. Fitzgerald, H.C. Hatch and E.N. McKelvey.

Functions of Certain Committees

Standing committees of the Board include the Management Resources and Compensation Committee and the Audit Committee.

The Management Resources and Compensation Committee, which met eight times in 1985, consists of five directors, none of whom is an officer of the Corporation. Their responsibilities include the review of the qualifications of persons proposed for appointment or election to the Board and the submission of recommendations for Board consideration and decision. The committee considers nominees recommended by shareholders for appointment or election to the Board; such recommendations may be forwarded to the Vice-President and Corporate Secretary at the Corporation's principal executive offices. Compensation related responsibilities include conducting an annual review and submitting recommendations for Board consideration with respect to directors' and officers' remuneration, and administering the BCE Executive Compensation Policy.

The Audit Committee, which met five times in 1985, consists of seven directors, none of whom is an officer of the Corporation. The committee's responsibilities include the review of the Corporation's financial statements, review of the efficacy of the Corporation's internal accounting controls, advice on the selection and remuneration of the Corporation's auditors and the furnishing to the Corporation of non-audit services by such auditors and advice to the Board of Directors on the establishment of procedures to ensure compliance with the Corporation's code of ethical business conduct.

Information Concerning Transactions with Interested Parties

During 1985, the Corporation and its subsidiaries, in addition to having had routine dealings as suppliers of services and equipment to various organizations with which directors of the Corporation are affiliated as executive officers or ten percent shareholders, have had other transactions with or have purchased products or services of a number of such organizations, or their subsidiaries.

Based upon information received from the Corporation's directors, it is believed that the amounts involved in the above transactions have in no case been material to the individuals involved or material to, or exceeded five percent of consolidated gross revenues of, either the Corporation or the organizations with which the directors are affiliated, with the exception of the purchases by Bell Canada, a wholly-owned subsidiary of BCE, of telecommunications equipment from Northern Telecom Limited, the Corporation's 52 percent owned manufacturing subsidiary, with which one director of the Corporation is affiliated as an executive officer. Such sales by Northern Telecom Limited to Bell Canada and to BCE's other telephone subsidiary and associated companies represent approximately 20 percent of Northern Telecom Limited's 1985 consolidated gross revenues. It is expected that the Corporation and its subsidiaries will continue to have similar dealings with such organizations in the future.

Security Ownership of Management

As of the date of this circular, directors and officers of the Corporation as a group beneficially owned in the aggregate less than 0.1 percent of any class of equity securities of the Corporation or its subsidiaries.

Information Concerning Remuneration of Directors and Officers

The following table shows the aggregate direct remuneration paid in 1985 by the Corporation and its subsidiaries to all directors of BCE, by groups, for services rendered as directors and to all officers of BCE, by groups, for services rendered as officers. In the data which follow, the names of subsidiaries have been abbreviated as indicated in brackets: Bell Canada (Bell), Northern Telecom Limited (NTL) and Ronalds-Federated Limited (Ronalds).

Directors' and Officers' Remuneration from BCE and its Subsidiaries

Nature of Remuneration Earned	Directors' fees	Salaries	Bonuses	Others (note 2)	Total
Remuneration of Directors					
(A) Number of directors: 22					
(B) Body corporate incurring the expense:					
BCE	$ 537,500				$ 537,500
Bell	177,100				177,100
NTL	283,100				283,100
Ronalds	6,800				6,800
Remuneration of Officers					
(A) Number of officers: 9					
(B) Body corporate incurring the expense:					
BCE		$2,270,300	$525,500 (note 1)	$122,900	2,918,700
Bell		140,100	13,000	8,500	161,600
Totals	$1,004,500	$2,410,400	$538,500	$131,400	$4,084,800

Note 1: Represents bonuses awarded for the year 1985 under the BCE annual short-term incentive policy (see pages 13 and 14) whether or not payment has been made to the employee on a current basis.

Note 2: Includes benefits relating to the Employees' Savings Plan (1970); car allowance benefits; life insurance; health insurance; and relocation assistance. There were no non-accountable expense allowances.

Note 3: The cost to BCE and its subsidiaries in 1985 of contributions for pension or retirement benefits upon retirement at normal retirement age to BCE directors and officers, individually or as a group, is not individually calculated by the Corporation's actuaries. For an illustration of the estimated annual pension benefits payable upon retirement on January 1, 1986 at age 65 to persons in specified earnings and service classifications under the BCE Pension Plan, see page 13. No pension benefits are proposed to be paid under the above Plan by BCE to any director except in respect of full-time service as an employee.

Note 4: The amount determined for 1985 by the Board of Directors of BCE in respect of a contractual retirement allowance arrangement of one officer, is described on page 13.

The following table shows the aggregate cash compensation for services in all capacities to the Corporation and its subsidiaries for the total year 1985 for each of the five most highly compensated executive officers of the Corporation and for all the Corporation's executive officers as a group.

Name of individual or number of persons in group	Capacities in which served (1)	Cash compensation
A.J. de Grandpré	Chairman of the Board and Chief Executive Officer of BCE	$ 882,100
R.J. Richardson	President of BCE	749,800
J.S. Spalding	Executive Vice-President, Finance of BCE	340,700
J.V.R. Cyr	Chairman of the Board, President and Chief Executive Officer of Bell	670,700
E.B. Fitzgerald	Chairman of the Board and Chief Executive Officer of NTL	1,045,200
All executive officers as a group (7 persons including the persons listed above)		$4,262,200

(1) Messrs. Cyr and Fitzgerald are not officers of BCE. Under U.S. securities laws, their inclusion in the above table is nevertheless considered appropriate.

(2) Certain non-cash compensation benefits to the individuals in the above table have not been included; they constitute less than U.S. $25,000 per individual, except for Mr. Fitzgerald who received $52,500 in the form of transportation, accommodation and financial counselling.

(3) As an example of the impact of taxation rates on various gross salary levels, the following table shows the personal income taxes and the resulting after-tax income from salary, in respect of the year 1985, for an employee who has no other source of income, who makes no contribution to a pension fund, registered retirement savings plan or Quebec stock savings plan, and who has no dependents other than a spouse who has no income.

	Quebec Resident		Ontario Resident	
Gross Salary	Federal & Quebec Income Taxes	Net — after tax	Federal & Ontario Income Taxes	Net — after tax
$1,000,000	$605,370	$394,630	$506,127	$493,873
900,000	543,270	356,730	454,107	445,893
800,000	481,170	318,830	402,087	397,913
700,000	419,070	280,930	350,067	349,933
600,000	356,970	243,030	298,047	301,953
500,000	294,870	205,130	246,027	253,973
400,000	232,770	167,230	194,007	205,993
300,000	170,670	129,330	141,987	158,013
200,000	108,570	91,430	89,967	110,033

BCE Remuneration Plans

BCE directors who are also officers of BCE and all other BCE officers participate in the Corporation's non-contributory defined benefit plan (the "Pension Plan"). In addition, supplementary executive retirement agreements ("Supplementary Agreements") which are described more fully in d. below, are entered into between BCE and each officer. The following describes the pensions payable to officers under the Corporation's Pension Plan, as supplemented by the Supplementary Agreements:

a. pensions are based on pensionable service and the average of the best consecutive thirty-six months of pensionable earnings;

b. pensionable earnings include regular salary, bonuses awarded under the BCE Executive Compensation Policy, as well as amounts determined by the Board for one officer under the contractual retirement allowance arrangement referred to elsewhere on this page;

c. the following table shows estimated annual pension benefits, expressed in each case as a percentage of the average of the best consecutive thirty-six months of pensionable earnings (the "Base"), payable upon retirement on January 1, 1986, at age 65, to officers in specified earnings and service classifications:

Base	Credited service (Years) 20	30	40	50
$200,000	28.3%	43.3%	58.3%	70.0%
300,000	28.9	43.9	58.9	70.0
400,000	29.2	44.2	59.2	70.0
500,000	29.3	44.3	59.3	70.0
600,000	29.4	44.4	59.4	70.0
700,000	29.5	44.5	59.5	70.0
800,000	29.6	44.6	59.6	70.0

Benefits shown above are not subject to any deductions or offsets thereunder;

d. under the Supplementary Agreements, each officer is credited with an additional 0.5 year of pensionable service for each year of service as an officer of the Corporation and the pension is calculated on the basis of the best consecutive thirty-six months of pensionable earnings, as opposed to the best five years under the Pension Plan. In no case may an officer receive in the aggregate under the Pension Plan and the Supplementary Agreements an annual pension benefit in excess of 70 percent of the Base. In addition, upon retirement, an officer is entitled to a payment under the Supplementary Agreements equal to the officer's annual salary. This amount is not included in computing the officer's pension benefits;

e. in addition to the pension credits referred to in d. above, i) under the terms of Mr. Richardson's employment with BCE, on each anniversary date of his employment, to a maximum of five such anniversaries, Mr. Richardson is credited with five additional years of service, provided, however, that the total service thus credited (excluding the years of service credited as an officer of BCE) is limited to twenty-five years; and ii) under the terms of an agreement between Mr. Spalding and BCE, Mr. Spalding is credited, since January 1, 1985, with one additional year of service for each year with BCE, in addition to the other credits for service to which he is entitled as an officer of BCE. Messrs. de Grandpré, Richardson and Spalding had credited service of 53 years, 7 years and 20 years, respectively, and pensionable earnings of $1,030,000, $570,000 and $300,000, respectively, as at December 31, 1985;

f. in 1985, BCE's contributions to the Pension Plan amounted to 8.2 percent of the total pensionable earnings of all plan participants. No amounts are contributed or charged to the Pension Plan with respect to the portions of the benefits reflected in the foregoing table, which are payable pursuant to the Supplementary Agreements, including the portions, if any, which are in excess of the maximum registered pension plan benefits established from time to time by Revenue Canada.

BCE has established a contractual retirement allowance arrangement with one of its executive officers, Mr. de Grandpré. The Board may, pursuant to such arrangement, determine from time to time amounts in respect of such officer. The cumulative balance pursuant to the arrangement is automatically increased annually by an amount equal to the product of the cumulative balance multiplied by an adjustment factor equal to a percentage rate of interest computed in prescribed fashion. The officer, subsequent to retirement, as defined under the arrangement (or his beneficiary if he dies prior to retirement), is entitled to receive the cumulative balance as retirement allowance payments. Mr. de Grandpré also has a similar contractual retirement allowance arrangement with Bell, established at a time when he was an officer of that corporation. The adjustment factor in 1985 with respect to such arrangements was 10.9 percent. An amount of $380,000 was determined for 1985 by the Board of Directors of BCE under the contractual retirement allowance arrangement between BCE and Mr. de Grandpré. Adjustment amounts and amounts determined under the contractual retirement allowance arrangement are not included in the tables on pages 11 and 12.

BCE's Executive Compensation Policy includes an annual (short term) incentive portion under which annual bonus awards may be granted to officers and other key employees of BCE determined by the Management Resources and Compensation Committee

of the BCE Board of Directors. Under the policy and related agreements executed by BCE officers and other key employees, awards to employees are not paid out to the employees on a current basis, except to the extent specifically requested by any particular officer or key employee and agreed to by BCE in accordance with the terms of the policy and related agreements. The cumulative balance in the accounts of employees whose awards have not been paid out to them on a current basis are automatically increased semi-annually by an adjustment factor equal to the prevailing five-year guaranteed interest certificate interest rate. Upon termination of employment, the cumulative balance is paid into a trusteed employee benefit plan and paid out over a period, not to exceed 10 years, to the employee (or, in the event of death, to his or her beneficiary). Awards under the policy with respect to the year 1985 are included in the tables on pages 11 and 12, whether or not the employees were paid the awards on a current basis, but no amounts are included with respect to adjustment amounts nor with respect to any income earned in trusteed plans subsequent to termination of employment. Such awards were made to Messrs. Richardson and Spalding and to executive officers of BCE other than those listed in the table on page 12.

In 1985, Shareholders approved the Long-Term Incentive (Stock Option) Program (1985) of BCE (the "Plan") which is designed to assist BCE in attracting and retaining executives with experience and ability. The Plan is generally administered by the Management Resources and Compensation Committee. Subject to confirmation by the Board of Directors of BCE, the committee chooses from time to time from among key employees those employees to whom it recommends that options should be granted and the number of common shares of BCE which it recommends be covered by each such grant. The aggregate number of shares covered by options authorized for issue to all optionees with respect to any year shall not exceed 0.5% of the issued and outstanding shares of BCE at the end of the previous year. The exercise price payable for each common share covered by an option is 100% of the market value (as defined in the Plan) of a common share on the last trading day prior to the date of the grant of each option or, in the case of U.S. participants, on the effective date of the grant. Simultaneously with the granting of an option, rights to a special compensation payment (an "SCP") may be granted, the amount of which is computed by reference to a number of shares not in excess of the number of shares covered by the option to which it is related. Each optionee granted an SCP shall have the right to receive, on the exercise of the related option, for shares covered by the SCP, a payment representing the excess of the market value of the shares on the date of exercise over their market value on the date of grant of the SCP. Effective May 1, 1985, options to purchase 58,095 common shares of BCE were granted under the Plan with respect to the year 1984 to all executive officers as a group, including options granted to Messrs. de Grandpré, Richardson, Spalding and Cyr to purchase 22,857, 15,238, 5,333 and 8,000 common shares, respectively, and options to purchase 55,851 common shares of BCE were granted to all officers of BCE as a group, at an exercise price of $39.375 per share. Also, effective February 4, 1986, options to purchase 57,208 common shares of BCE were granted under the Plan with respect to the year 1985 to all executive officers as a group, including options granted to Messrs. de Grandpré, Richardson, Spalding and Cyr to purchase 22,925, 10,932, 5,274 and 8,226 common shares, respectively, and options to purchase 58,327 common shares of BCE were granted to all officers of BCE as a group, at an exercise price of $37.6875 per share. SCP's covering an equal number of shares were also granted to the same individuals and groups. No options or SCP's were exercisable in 1985.

Under the BCE Employees' Savings Plan (1970) (which is not an option to purchase securities), BCE employees, including BCE officers, are eligible to make a basic contribution of 2%, 4% or 6% of their basic wages with provision for an additional 2% or 4% supplementary contribution. BCE contributes to the plan at the rate of $1 for every $3 of an employee's basic contribution. The National Trust Company, as trustee, purchases with these contributions common shares on the open market throughout each month of the plan year; these common shares are distributed to participants following the end of each plan year (every second year in the case of officers), which coincides with the calendar year. Alternatively, plan funds held on behalf of participating officers so electing are invested by the plan trustee in short-term debt instruments of the plan trustee and/or are invested in the open market by investment dealers selected by such officers in shares of any company in accordance with the instructions of such officers; these investments may be distributed to the officers upon their instructions at any time following the end of the plan year. In 1985, Messrs. de Grandpré, Richardson and Spalding and executive officers of BCE other than those listed in the table on page 12 benefited from company contributions under the plan, which contributions are included in the said table and in the table on page 11.

BCE officers participate in the Corporation's comprehensive medical expense, dental and vision plans available to all BCE employees and in a supplementary health plan for BCE

officers only. Premiums paid on behalf of officers in connection with the latter plan are reflected in the remuneration table contained on page 11.

Directors' Remuneration

Each director who is not a salaried officer of BCE is entitled to be paid $15,000 per annum for his services as a director, $3,000 per annum per committee for his services as a member of any standing committee of the Board and $2,000 per annum for his services as Chairman of any standing committee of the Board. In all cases, the directors are entitled to an attendance fee of $750 per meeting and the reimbursement of their expenses. Additional special remuneration may be paid to a director undertaking any special services beyond those ordinarily required of a director by the Corporation.

Northern Telecom Limited Remuneration Plans

Messrs. de Grandpré and Fitzgerald have special pension and retirement plans with NTL. In 1982, in recognition of his outstanding services rendered to NTL, and in particular as Chairman of its Board and of the Executive Committee thereof, Mr. de Grandpré entered into an agreement with NTL establishing a special pension and retirement plan; an amount of $500,000 was expensed by NTL for financial reporting purposes in 1982 to fund the benefits payable under such plan. The agreement will provide Mr. de Grandpré, at age 65, with a monthly pension and retirement allowance in the basic amount of $8,917 for life, guaranteed ten years; in case of death before age 65, a lump sum equal to the actuarial equivalent of the allowance will be paid to his estate. Payments under the agreement are subject to Mr. de Grandpré satisfying non-competition and certain other conditions.

In January 1984, Mr. Fitzgerald entered into an agreement with NTL providing for the payment of a special retirement benefit in lieu of any other benefit or pension payable pursuant to the regular NTL pension plan, the Northern Telecom Inc. ("NTI") retirement plan or to the supplemental retirement arrangement for NTL officers. The special retirement benefit is based on Mr. Fitzgerald's years of actual service and years of additional service as defined in the agreement ("Additional Service"), the average annual earnings of his best three consecutive years ("Final Average Remuneration") and the benefit formula contained in the NTL pension plan at the time of his retirement. As of January 1, 1986, Mr. Fitzgerald had 5 years and 8 months of actual service and 19 years and 3 months of Additional Service. The agreement also provides that the computation of his Final Average Remuneration will be based on his salary and all of the amounts awarded to him as short-term incentive awards under the Incentive Plan for his best three consecutive years of service. As of January 1, 1986, the special retirement benefit which would be payable to Mr. Fitzgerald under the agreement if he retired at age 65 would be approximately 39% of his Final Average Remuneration. As of January 1, 1986, Mr. Fitzgerald's Final Remuneration was $732,500. In no event, however, will this special retirement benefit exceed 70% of his final 12 months' base salary prior to retirement. The special retirement benefit will be paid in equal monthly instalments upon retirement, commencing on the first day of the month following his retirement and ending in the month of his death, subject to certain survivor income benefits. The special retirement benefit does not constitute a charge against the regular NTL pension plan or NTI retirement plan.

As a senior officer of NTL, Mr. Fitzgerald participates in the Senior Management Incentive Award Plan pursuant to which short-term and long-term incentive awards are payable at the end of each performance period, as defined under the plan, unless deferred. In 1985, an amount was awarded to Mr. Fitzgerald under this plan, which amount is included in the table on page 12.

In addition, Mr. Fitzgerald participates in the NTI Employee Thrift/Savings Plan pursuant to which NTI generally contributes $1 for every $2 of an employee's basic contribution. These contributions are invested in NTL common shares purchased in the open market or in a fixed income investment fund. No distributions were made during 1985 to Mr. Fitzgerald under the plan. An amount of $26,798 was vested to Mr. Fitzgerald's account at the end of 1985.

Each present director of NTL who is not a salaried officer of NTL or of any of its subsidiaries and who is not entitled to any other pension or other retirement allowance under a plan or arrangement established by NTL or any of its subsidiaries, is entitled to receive annual retirement compensation from NTL, at the rate of 75% of the Board retainer payable when such director ceases to hold office as such, plus indexed compensation at the rate of 56.25% of any increment in the Board retainer fee payable, from time to time, by NTL over the amount of the Board retainer serving for the computation of the directors' base retirement compensation, which shall be payable during his lifetime for a period equal to the duration of such director's tenure as a member of the Board of Directors or ten years, whichever is less.

NTL directors are entitled to elect in advance to defer the receipt of all or part of their compensation as directors, including attendance fees. A minimum rate of return of two percent less than the average prime rate of interest calculated and compounded semi-annually by NTL

is guaranteed on the compensation so deferred. Upon a director ceasing to be a director, payment of deferred compensation will be made in equal quarterly instalments over a period not exceeding 40 quarters.

NTL maintains, at its expense, group life insurance, for each individual who is a director of NTL and who is not a salaried employee of NTL or of any of its subsidiaries, in an amount of $100,000 while such individual is a director and an amount of $75,000 thereafter.

Bell Canada Remuneration Plans

Mr. Cyr, as an officer of Bell, participates in Bell's non-contributory defined benefit plan (in 1985, Mr. Cyr's pensionable earnings were $495,000 and he had credited service of 35 years), including a supplemental plan providing for an additional 0.5 year of pensionable service for each year of service; in Bell's Employees' Savings Plan (1970); in Bell's medical, dental and vision plans; and in a supplementary health plan for Bell officers only. All such plans are substantially similar to the corresponding BCE plans described on pages 13 and 14.

Bonuses, which are performance based, are awarded annually by Bell at the discretion of its Board of Directors upon the recommendation of the Management Resources and Compensation Committee to certain employees of Bell. Such bonus awards may also be contributed to a profit sharing plan available to certain employees of Bell. A bonus was awarded to Mr. Cyr and contributed in 1985 by Bell to such profit sharing plan in respect of Mr. Cyr; the amount of said bonus is included in the table on page 12 of this circular.

Liability Insurance

Group liability insurance in the amount of $79,000,000 is purchased at the Corporation's expense for the protection of all the directors and officers of the Corporation against liability incurred by them in their capacities as directors and officers of the Corporation and subsidiary or associated companies. There is no sub-limit specified for any individual covered thereunder. In 1985, the amount charged against income by the Corporation on a pro-rated basis in respect of the directors of the Corporation as a group was $25,603 and in respect of the officers of the Corporation as a group was $13,554. In any case in which the Corporation is not permitted by law to reimburse the insured, the deductible is nil. Where the Corporation is permitted to reimburse the insured, the deductible is $100,000.

Other Information

Ownership of BCE Shares

As of the date of this circular, directors and officers of the Corporation as a group beneficially owned in the aggregate 86,030 common shares and 3,850 first preferred shares of the Corporation. According to a Schedule 13D filed with the United States Securities and Exchange Commission and delivered to BCE on February 7, 1986, the Caisse de dépôt et placement du Québec, a government agency which manages funds deposited by other agencies and instrumentalities of the province of Quebec, beneficially owned 12,472,713 common shares of the Corporation. As of the date of this circular, the Caisse beneficially owned 12,572,714 common shares of the Corporation, representing 5.08% of the issued and outstanding common shares of BCE. To the knowledge of the Corporation, no other person beneficially owns over five percent of its common shares or of its first preferred shares. Bell Canada, a wholly-owned subsidiary of BCE, owns 1,537,427 second preferred shares, representing 100% of the outstanding shares of such class, and, under applicable corporate legislation, cannot exercise the voting rights attached to such shares.

I, the undersigned, Vice-President and Corporate Secretary of Bell Canada Enterprises Inc., hereby certify that the contents of this circular and the sending of it to each shareholder entitled to receive notice of the annual meeting, to each director, to the auditors of the Corporation and to the appropriate governmental agencies were approved by the Board of Directors of the Corporation.

Guy Houle

Guy Houle,
Vice-President and
Corporate Secretary

Montreal, March 6, 1986

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Contents

BCE* is a management holding corporation whose subsidiaries and associated companies are major providers of telecommunications services; they are leaders in the manufacture and supply of telecommunications equipment, and in natural gas transportation and natural resource operations.

BCE, with its other subsidiaries and associated companies, also is a major provider of international telecommunications consulting services and is engaged in printing, packaging and publishing, real estate and other fields.

BCE has the largest number of registered shareholders of any Canadian corporation and its common shares are listed on the stock exchanges in Canada, the United States, Japan and Europe.

** BCE is a trademark of Bell Canada Enterprises Inc.*

Bell Canada Enterprises Inc.
Executive Offices
44th Floor
800 Square Victoria
Montreal, Quebec

1986 Annual Meeting
The annual meeting of the shareholders will take place at 10:00 a.m. Thursday, May 1, 1986 at the Roy Thomson Hall, 60 Simcoe Street, Toronto, Ontario.

An Official Sponsor of the
Canada Pavilion
Vancouver 86

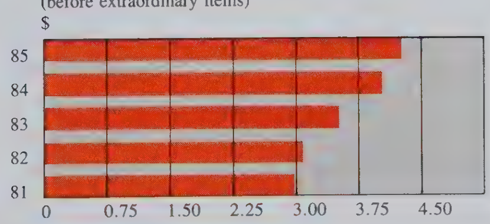
BCE shares are traded now on fourteen stock exchanges around the world. On November 19, 1985, BCE became the first Canadian corporation listed on the Tokyo Stock Exchange. On that day, some 412,000 shares were traded. Trading opened at a price of ¥ 6,300 and closed at ¥ 6,320.

BCE conducts annual information meetings with institutional investors and financial analysts in world financial centres in the nine countries in which its shares are listed. Pictured in London, last September, are (l. to r.): Ian S. Steers, vice-chairman, Wood Gundy Ltd., London; J. Stuart Spalding, executive vice-president, finance, BCE; Armin J. Mattle, managing director, UBS (Securities) Ltd., London; A. Jean de Grandpré, chairman, and Robert J. Richardson, president, BCE.

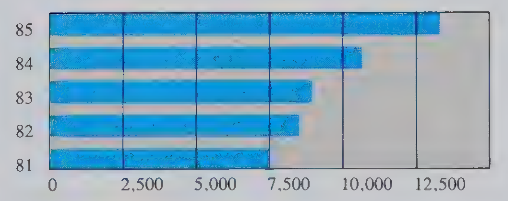
Financial Highlights

Canadian dollars	1985	1984	1983
	(in millions of dollars, except per share amounts)		
Earnings per common share			
before extraordinary items	**$ 4.23**	$ 4.03	$ 3.46
after extraordinary items	**4.23**	4.03	3.88
Total revenues	**13,257.4**	10,578.7	8,874.7
Income before extraordinary items	**1,050.8**	940.3	745.2
Net income	**1,050.8**	940.3	829.8
Net income applicable to common shares			
before extraordinary items	**1,009.0**	894.2	692.9
after extraordinary items	**1,009.0**	894.2	777.5
Return on common equity	**15.0%**	15.7%	14.7%
Total assets	**20,583.4**	17,486.0	14,940.4
Gross capital expenditures	**2,426.9**	1,956.3	1,597.1

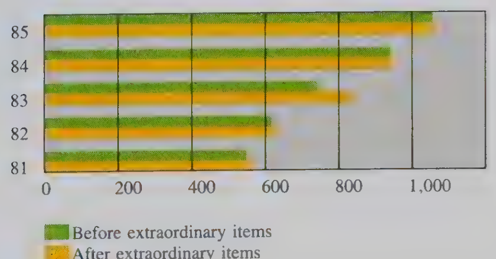
Earnings per common share
(before extraordinary items)



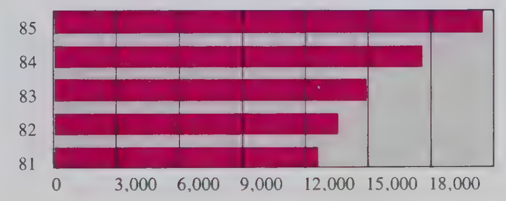
Total revenues
(millions of dollars)



Net income
(millions of dollars)



Total assets
(millions of dollars)



To All Our Shareholders

BCE continued its vigorous domestic and international growth during 1985, with net income reaching record levels of more than one billion dollars. 1985 net income applicable to common shares stood at $1,009.0 million, an increase of 12.8 per cent from the previous year.

Total revenues for the year climbed to 13 and-a-quarter billion dollars ($13,257.4 million), an increase of more than 49 per cent in two years. Earnings per common share in 1985 rose to $4.23, even though the average number of common shares outstanding increased by 7.6 per cent to 238.5 million. Total assets now stand at $20.5 billion.

These achievements, which we believe to be virtually unique in the annals of Canadian business, reflect the extensive continuing support of our shareholders and the outstanding efforts of our employees.

It is noteworthy that these record results have been produced at a time when several of our businesses are facing steadily increasing competition at home and abroad, factors which are likely to make it more difficult to maintain the rate of growth at the same pace in the years ahead.

The three years since the creation of BCE have been a period of intense domestic and international activity for the corporation, marked by a number of acquisitions and rapid growth, and culminating in the record earnings achieved in 1985.

1986 is likely to be a year of consolidation, but overall 1986 earnings should be comparable with those achieved in 1985.

In November last year, the quarterly common dividend rate for 1986 was increased by 3.5 per cent, to bring the annualized dividend up to $2.36 per share. This was the 13th successive year in which our common dividend has been increased.

BCE and the companies which make up its corporate family pursued business opportunities around the world during the year, to extend and intensify international awareness of our many capabilities.

BCE's ability to raise equity capital on world markets was further enhanced on November 19, 1985, when BCE became the first Canadian corporation, and one of few North American companies, to have its shares accepted for listing on the Tokyo Stock Exchange. Several other Canadian organizations are following BCE's lead. BCE is now listed on fourteen exchanges in Canada, the United States, Japan and Europe.

Japan today is the world's leading exporter of capital and is the second largest free market economy. Japan also is Canada's second largest trading partner, offering opportunities for increased trade, investment and technology flows.

In February 1986, we felt that the increased awareness of BCE on the part of Japanese investors made it opportune to launch an equity issue in that country. This issue of five million common shares represents an increase of about two per cent in the total number of BCE common shares outstanding.

Bell Canada, which continues as the main contributor to BCE earnings, achieved outstanding productivity gains in 1985. Bell Canada's total factor productivity (TFP) registered a gain of well over six per cent, compared with about one per cent for the Canadian economy as a whole. TFP for Bell Canada is defined as reflecting the relationship between the total output of telecommunications services, and the total input of labor, capital and other resources.

Improved revenues from local service, an increase in sales-type leases and greater than anticipated successes in expense control and personnel management were the major factors in the decision by the Canadian Radio-television and Telecommunications Commission (CRTC) to suspend, effective September 1, 1985, a two per cent interim rate increase the commission had approved at the end of 1984.

In December 1985, the CRTC said that it will conduct a public hearing this June to make a final determination of Bell Canada's revenue requirements for the years 1985, 1986 and 1987. That hearing also will deal with establishment of an acceptable range of return on Bell Canada's regulated common equity for the years 1986 and 1987.

For several years now, BCE's holdings in telecommunications companies in the Atlantic provinces have been declining because the corporation has not been participating in their dividend reinvestment plans.

To ensure that BCE continues to hold a significant interest in these companies, the BCE board decided to renew participation in the dividend reinvestment plans

of NewTel Enterprises Limited (NewTel), Maritime Telegraph and Telephone Company, Limited (MT&T) and Bruncor Inc. (Bruncor).

NewTel Enterprises was created, in October 1985, as a new holding company with 100 per cent of the shares of Newfoundland Telephone Company Limited. BCE's investment in NewTel at the end of 1985 stood at 53.4 per cent.

Also at December 31, 1985, BCE owned 31.4 per cent of the shares of MT&T, and 30.7 per cent of Bruncor Inc. Bruncor came into being on July 1, 1985, as the parent corporation of The New Brunswick Telephone Company, Limited.

Northern Telecom Limited, which was the second major contributor to BCE earnings, commenced 1986 with receipt of confirmation that it was being awarded a major supply contract by Nippon Telegraph and Telephone (NTT) of Japan. NTT said it had decided to purchase from Northern Telecom Inc. (NTI) digital central office switching equipment having a total value of more than (US) $250 million.

It is the first major contract of this nature to be granted by NTT to a non-Japanese company. The contract follows several years of detailed examination and study by NTT of submissions put forward by NTI and its Japanese subsidiary, Northern Telecom Japan Inc. Northern Telecom Pacific, also based in Tokyo, is seeking other contract successes through marketing initiatives in several Asian and Pacific countries.

Bell-Northern Research Ltd. (BNR) is owned jointly by Northern Telecom and Bell Canada. It is Canada's largest private industrial research and development organization. In 1985, BNR spent just under half a billion dollars in telecommunications R&D.

On a BCE consolidated basis, total R&D expenditures for 1985 reached $706.5 million, up by 30.1 per cent from the previous year.

TransCanada PipeLines Limited (TCPL) was affected by several regulatory developments in 1985. On October 11, the National Energy Board (NEB) announced that TCPL's allowed rate of return on its regulated Canadian pipeline system, for the test year ending July 31, 1986, would be 14.5 per cent on a deemed common equity ratio of 30 per cent. This compares with the 15.5 per cent rate of return allowed during the previous year in the higher interest rate environment then prevailing.

Also in October, the federal government and the governments of the western producing provinces announced plans to deregulate Canadian natural gas markets by November 1, 1986, and to reduce regulation associated with export sales to United States markets.

TCPL and four U.S. utilities are studying a proposal to build an underground pipeline in the northeastern United States. If constructed, the pipeline would carry up to 400 million cubic feet of Canadian gas daily, sufficient to provide enough energy to heat a million homes. The 590-kilometre pipeline would cross the border near Iroquois, Ontario, and run through the states of New York and Connecticut to terminate on Long Island.

Robert J. Richardson

BCE continued participation in the dividend reinvestment plan of TransCanada PipeLines Limited during 1985, thereby bringing its ownership position on December 31 to 47.8 per cent.

During 1985, the first steps were taken leading to a reorganization of our multiple investments in the printing, packaging and publishing field. Designed to achieve greater managerial and operational efficiencies, the reorganization resulted in the creation, in early 1986, of BCE PubliTech Inc., a new holding corporation which replaced Tele-Direct (Canada) Inc. BCE PubliTech is headquartered in Toronto.

In the new organization, the various international businesses are being drawn together in three major business units. In order to take full advantage of future market opportunities, the resources are being realigned into a directory group, a commercial printing and packaging group, and a security printing group of companies.

Since entering the field of real estate, BCE has been acquiring assets which will provide a solid investment base for the assurance of future returns. Early in 1985, we acquired a 69 per cent interest in Daon Development Corporation (Daon), of Vancouver. The underlying value of its assets made it an attractive opportunity which, at the same time, provided depth of management expertise in the real estate development field.

Throughout 1985, BCE worked on integrating its real estate operations under Daon and, in January 1986, it was announced that two downtown Toronto buildings had been sold by BCE Realty to Daon. Daon also was granted options to acquire BCE Realty's interest in BCE Place, the major multi-phase development which will be constructed in the downtown Toronto block bounded by Bay, Front, Yonge and Wellington streets.

Late in February 1986, Daon shareholders approved a change of name for the company, which is now known as BCE Development Corporation. BCED will maintain its headquarters in Vancouver and will be the corporation in which BCE's real estate interests will be centered.

Competition in the field of international telecommunications consulting is intense and, during 1985, skilled professional personnel from Bell Canada International Inc. (BCI) were engaged on projects in 35 countries. The largest among them is the contract with the Kingdom of Saudi Arabia, where some 600 BCI managers were assisting in the operation and maintenance of the national telecommunications system.

The entrepreneurial activities of BCI (U.K.) Limited in Europe advanced significantly during 1985 with the acquisition of four computer maintenance companies in the United Kingdom, the Netherlands, France and Italy. BCI holdings in the United Kingdom were merged to create a company which provides third-party maintenance services to more than 7,000 users of mini- and micro-computers and telecommunications systems.

BCI now has the largest third-party maintenance operation in Europe. Continued growth in its operations is expected to result from the explosive growth in Europe of the use of mini-computers, word processors and personal computers.

Bell Communications Systems Inc. (BCSI) achieved revenue growth of nearly 50 per cent during 1985. In five years of operation, BCSI has worked intensively to become the acknowledged Canadian industry leader in the competition to provide sales and service of interconnect telecommunications systems.

1985 saw several changes in the make-up of your board of directors. Radcliffe R. Latimer withdrew from the board in June, coincident with his departure from TransCanada PipeLines. In April, two other directors, Dr. H. Rocke Robertson and Orland Tropea left the board following long periods of service.

Rocke Robertson served on both the BCE and Bell Canada boards for two decades and, during much of that period, was chairman of the social and environmental affairs committee of the Bell Canada board.

Until his retirement, Or Tropea had been deputy chairman of the BCE board. He played a pivotal role in the activities

leading to the creation of BCE in 1983, and then headed the team which established the new corporation and helped provide leadership during the crucial first 18 months of its operations. He also was chairman of Tele-Direct (Canada) Inc., and of Ronalds-Federated Limited, during a period of rapid growth and expansion which saw them evolve into one of the largest and finest printing and graphic design organizations in North America.

New directors elected to the BCE board at the 1985 annual meeting in Edmonton, Alberta, are Alastair H. Ross, who is president of Allaro Resources Ltd., of Calgary; and Lynton R. Wilson, president and chief executive officer of Redpath Industries Ltd., of Toronto. Mr. Ross is a member of the audit committee of the BCE board, and Mr. Wilson is a member of the board's investment committee.

Canada will be host to the world this year at Expo'86, in Vancouver, and several BCE companies are actively supporting various aspects of the event. Millions of visitors are expected to flock to Expo'86 during the period between May 2, when it will open, and October 13, when it will close.

One of the most popular pavilions at the Vancouver fair is likely to be the Telecom Canada Pavilion, which was erected and is sponsored by the member companies of Telecom Canada. Bell Canada is the leader among the supporters of that project.

One of the outstanding feature exhibits in that pavilion will be a striking and sensitive film, entitled "Portraits of Canada/Images du Canada". The film has been produced for the occasion in 360-degree circlevision.

Northern Telecom Limited is furthering the activities at the Canada Pavilion through sponsorship of the Commissioner-General's reception area. The Canada Pavilion, which has already become a Vancouver landmark, will be the site of formal receptions for dozens of world leaders during the course of Expo'86.

BCE itself is the corporate sponsor for what will be one of the most visible aspects of the fair. To be known formally as the Canada Portal, it is a meeting place which will be the focal point for transportation systems serving both the Canada Pavilion and the main Expo site.

The main feature of the Canada Portal will be the world's tallest free-standing flagpole, soaring some 280 feet above the fair. A huge Canadian flag, measuring 80 feet by 40 feet, will be visible for several miles and, leaning against the flagpole as a whimsical touch, is the world's largest hockey stick – some 200 feet long, with a blade 30 feet long.

"Meet me at the hockey stick" is likely to become a catch-phrase during Expo'86, and BCE is proud to be the corporate sponsor for that landmark exhibit.

1985 was a successful year for BCE and the prospects for 1986, in spite of some uncertainties, look encouraging.

We owe all our staff, involved in the many activities of BCE companies around the world, our sincere thanks for the enthusiasm they have brought to their challenges during the year, and our gratitude for the successes which their efforts have produced.

A. Jean de Grandpré

Finally, all BCE shareholders are cordially invited to participate in the 1986 annual meeting. It will take place at 10:00 a.m. Thursday, May 1, 1986 at the Roy Thomson Hall, 60 Simcoe Street, Toronto, Ontario.

A. Jean de Grandpré
Chairman and chief executive officer

Robert J. Richardson
President

February 26, 1986

Telecommunications Operations

Bell Canada

A wholly-owned telecommunications operating subsidiary of BCE, Bell Canada provides advanced voice, data and image transmission services, and associated management and operating systems, to more than seven million business and residence customers.

Bell Canada's operating territory spans some five million square kilometres in Quebec, Ontario and the eastern Arctic, which it serves with networks, facilities and resources representing assets totalling $12 billion.

It is one of Canada's largest employers, with some 48,800 employees whose total payroll exceeds $1.5 billion. Its subsidiary companies employ an additional 2,000 people.

Bell Canada also is a significant force in the economy through expenditures of more than one billion dollars annually for goods and services purchased from nearly 5,000 suppliers.

Diversification and intensified marketing thrusts are among the steps being employed by Bell Canada to meet rising competition in the telecommunications marketplace. Successful marketing initiatives and increased demand for telecommunications services, combined with continuing containment of growth in operating expenses and productivity improvements, produced 1985 net income of $652.1 million for Bell Canada, and a contribution of $2.65 to BCE's earnings per common share. Bell Canada earned a 1985 return on average common equity of 13.8 per cent (13.9 per cent in 1984).

Capital expenditures to ensure maintenance of existing services and to meet the demand for growth increased by 19.5 per cent to $1,409 million in 1985, and are forecast to reach $1,520 million in 1986.

(Additional financial data may be found in the Financial Review section, beginning on page 20.)

Related investments

Bell Canada Management Corporation (BCMC) was established early in 1985 as a wholly-owned subsidiary holding company to consolidate non-regulated telecommunications activities, manage new ventures in telecommunications and related fields and seek out business opportunities. The new corporation now has holdings in subsidiary and associated companies representing a total investment of some $134 million. Some of the new ventures are:

Bell Cellular Inc.

Bell Cellular is a wholly-owned subsidiary of BCMC. It provides cellular mobile telephone services in major markets in Ontario and Quebec. Originally established as a division of Bell Communications Systems Inc., a BCE subsidiary, Bell Cellular has been competing aggressively in the new market for cellular mobile phone service.

Bell Data Systems Inc.

This company offers a wide range of distributed data processing equipment and systems, data terminals and office automation software packages in the Canadian market. Originally operated as the Canadian data systems division of Northern Telecom, the company was acquired by BCMC in April 1985.

Computer Innovations Distribution Inc.

BCMC purchased a 47.7 per cent holding in the company in the third quarter of 1985. Computer Innovations Distribution Inc. is engaged in the distribution, sale and service of computers and related products through a network of retail outlets across Canada.

Bell Technical Services Inc.

A wholly-owned subsidiary formed from the purchase of TRW Data Systems, this company provides third-party maintenance for computer equipment and peripherals sold by a wide range of manufacturers and distributors.

Protocol Message Management Centers, Inc.

Based in Washington, D.C., the wholly-owned subsidiary of BCMC was created in November 1985. It markets operations expertise, through franchises, to independently-owned telephone answering service bureaus in the United States and Canada.

Lavalin Bell Géomat Inc.

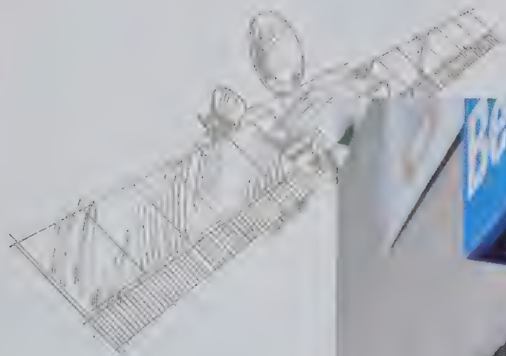
A joint venture of Bell Canada and Lavalin Inc., of Montreal, a leading consulting engineering firm, the new firm specializes in the provision of automated network management services to national and international clients. It also carries out digital network mapping for large transportation, communications and public works organizations which need detailed records of complex networks of facilities or services.

In addition to the BCMC companies, Bell Canada has equity interests of 30 per cent in Bell-Northern Research Ltd., Canada's largest privately-owned industrial research and development laboratories, and 24.6 per cent in Telesat Canada, which operates the nation's communications satellites.

Tele-Direct (Publications) Inc., wholly-owned, publishes directories and sells Yellow Pages™ advertising for Bell Canada and 46 other Canadian telephone companies.

Marketing initiatives

Sales of Centrex III private branch exchange services were more than 250,000 lines in 1985, and the Centrex



"The office away from the office":
Bell Canada's TelePort booths give travellers new convenient points of access to their electronic mail.

family of integrated voice/data systems was extended with the introduction of Centrex III Data during the year. The first Centrex Service Centre, designed to deal exclusively with the needs of Centrex III clients, was opened in Toronto. Similar centres will be established in Ottawa and Montreal during 1986.

Growth in the area of intelligent communications services saw the number of Envoy 100™ users pass 35,000 and a companion service, iNet 2000™, become available on a full commercial basis. TelePort™ booths, which permit Envoy and iNet access for business travellers, were installed in six Canadian airports. TelePort booths have proven successful and additional installations will be made during 1986 at other high traffic locations in Quebec and Ontario.

ISDN (Integrated Services Digital Network) is an advanced electronic digital telecommunications network technology which, using only a single pair of standard copper wires, will afford access to several features at the same time — something which otherwise would require several pairs of wires. An internal technology trial of ISDN will be initiated by Bell Canada during 1986, with a market trial among customers to follow in 1987.

Signature™, a new rental set with Custom Calling capabilities, was introduced in September. The Signature set makes available, to residence and small business customers, features such as call waiting, call forwarding, speed calling and conference calling.

Another new convenience service introduced on a trial basis during 1985 is CardPhone™, a development which permits the use of credit cards with public pay telephones. The first of its kind in Canada, the CardPhone will accept all major credit cards as well as the Calling Cards™ of Bell Canada and other major telephone companies.

Enhancing productivity

Bell Canada significantly increased its commitment to the use of computer applications in its internal operations with the 1985 introduction of its Office Services Program. The company is providing the funding, equipment, training and development to make the fully automated office become a reality.

The area of personal computing has grown dramatically, with some 1,600 personal computers installed over the last three years. Bell Canada estimates that the savings associated with this $17 million investment have reached approximately $37 million a year.

Investments will continue to be made in the further development of other integrated office systems and services, such as Envoy 100, teleconferencing services, video-conferencing facilities and still wider installation of word processing systems. In addition to the internal operational benefits flowing from these investments, Bell Canada expects the expertise gained will be marketed to customers seeking competitive advantages.

Regulatory environment

In August, the Canadian Radio-television and Telecommunications Commission (CRTC) issued a decision stating it would not be "in the public interest" to approve an application by CNCP Telecommunications for permission to interconnect its system with those of Bell Canada and British Columbia Telephone Company, Limited.

Effective September 1, 1985, the CRTC suspended an interim rate increase of 2.0 per cent for certain Bell Canada services. The increase had gone into effect on January 1.

In an announcement on December 23, 1985, the CRTC said it would conduct a public hearing in 1986 to make a final determination regarding Bell Canada's revenue requirements for 1985, 1986 and 1987. In the same proceeding, the CRTC plans to review the interim increase which was suspended in September.

Other BCE telecommunications interests

At December 31, 1985, other direct telecommunications subsidiaries of BCE were Télébec Ltée (100 per cent); Northern Telephone Limited (99.8 per cent); and NewTel Enterprises Limited (53.4 per cent), which, as a result of a corporate reorganization, became the parent corporation of Newfoundland Telephone Company Limited, in October 1985.

BCE also has minority holdings in Maritime Telegraph and Telephone Company, Limited (31.4 per cent) and Bruncor Inc. (30.7 per cent), which became the parent corporation of The New Brunswick Telephone Company, Limited on July 1, 1985, following a corporate reorganization.

These companies showed increased revenues during 1985 and, together, contributed $42.5 million to BCE's earnings, an increase of 5.2 per cent over 1984.

Telecommunications Equipment Manufacturing

BCE's investment in telecommunications equipment manufacturing is represented by its 52 per cent holding in Northern Telecom Limited (NTL), the second largest designer and manufacturer of telecommunications equipment in North America. NTL maintained its position in 1985 as the world's leading supplier of fully digital telecommunications systems.

The company experienced a strong year, reporting consolidated revenues of $5.8 billion, an increase of 33 per cent from the $4.4 billion reported in 1984. Net earnings applicable to its common shares advanced 19 per cent to $377 million from $318 million in 1984.

NTL's order backlog at the end of 1985 was some $2.1 billion, down from $2.3 billion the previous year, reflecting delays experienced during 1985 in the introduction of new software for network products, and for additional features and enhancements to other products.

Shortly after the close of the year, Northern Telecom received confirmation from Nippon Telegraph and Telephone Corporation (NTT) of its intent to award a major contract for the purchase of Northern Telecom's DMS-10™ digital switching systems for central office use in Japan.

In announcing its decision, NTT said it was "anxious to buy the best equipment on the world market" and that Northern Telecom's equipment would support "Japan's long term goal of establishing a nationwide Integrated Services Digital Network". The switches for NTT will be manufactured in North Carolina by Northern Telecom Inc. NTT estimated that the value of anticipated sales would exceed (US) $250 million, with delivery to begin in 1987.

NTL will continue to invest in manufacturing, marketing and research and development with the objective of attaining revenues of (Cdn.) $8 billion by 1988.

To maintain its lead in the global telecommunications industry, Northern Telecom plans to spend more than $2 billion over the next three years on research and development of new products and services for its customers worldwide.

Northern Telecom's leadership in digital telecommunications was extended during 1985 through the introduction of several new products and services. The year opened with the introduction of the Meridian™ line of fully digital voice and data products.

The Meridian line consists of the SL-1™ and SL-100™ integrated services networks, digital terminals and the Meridian DV-1™ Data Voice System. In the second half of 1986, the line will be enhanced through the introduction of Packet Transport Equipment and specially developed software and circuit packs.

The Packet Transport Equipment will give the Meridian systems a local area network capability under the name LANSTAR™. Voice and data communications may be transmitted by LANSTAR up to four times faster than other local area networks, which can handle data communications only.

During the year, Northern Telecom also introduced the concept of Dynamic Network Architecture – a common framework for the hardware, software and transmission systems making up the public and private telecommunications networks.

Northern Telecom's scientific and engineering resources are helping to develop the advanced information and communications systems needed for the Information Age. One of NTL's more significant efforts in this area is its work in the continuing development of the Integrated Services Digital Network, known as ISDN.

Using the enormous information transmission capacity of fibre optics, ISDN will create broadband, digital communications systems with the capacity to deliver very high quality voice and data over a single data pipeline, at every level of network operation.

Northern Telecom is working with Bell Canada in the development of ISDN and, in 1986, an internal technology trial of ISDN will be initiated by Bell Canada in Ottawa.

Telecommunications Equipment Manufacturing
(continued)

Market areas
Growth in sales, on a geographic basis, was led by the United States where revenues of $3.9 billion were up by 39 per cent from the previous year, and represented 68 per cent of Northern Telecom's 1985 consolidated revenues.

Sales of all product lines were up, led by DMS™ central office switching with a 64 per cent increase in U.S. sales. The rapid conversion to digital technology has been reflected in NTL sales to the various United States Bell operating companies. Sales to these companies in 1985 doubled to (US) $1.4 billion.

Increases also were recorded in sales of various products to other telecommunications companies, interexchange carriers, government and military customers, and other markets.

In Canada, NTL revenues grew by 20 per cent in 1985 to $1.6 billion, accounting for 28 per cent of consolidated revenues. All product lines contributed to the increase in Canadian revenues, with DMS central office switching being up by 63 per cent. Sales to Bell Canada and other BCE subsidiary and associated companies, accounting for $1.1 billion of NTL's Canadian sales, were up 26 per cent from 1984.

Sales outside of North America showed an increase of 38 per cent to $241 million, and represented four per cent of total consolidated revenues. During the year, Northern Telecom restructured its European and Pacific operations with a view to achieving significantly higher levels of business outside North America.

European operations were regrouped under Northern Telecom plc., a company headquartered in London. Northern's Asian and Pacific activities are now directed by Northern Telecom Pacific, with headquarters in Tokyo.

Increased R&D investment
Investment in research and development during 1985 increased by 36 per cent to $586.3 million, the equivalent of 10 per cent of consolidated revenues.

Northern Telecom expects to continue R&D spending at a similar rate in 1986 with major investments in new technologies and products for the information systems industry. Work also will continue on the enhancement of the DMS and Meridian SL™ families of products, and toward the implementing of ISDN and a Dynamic Network Architecture.

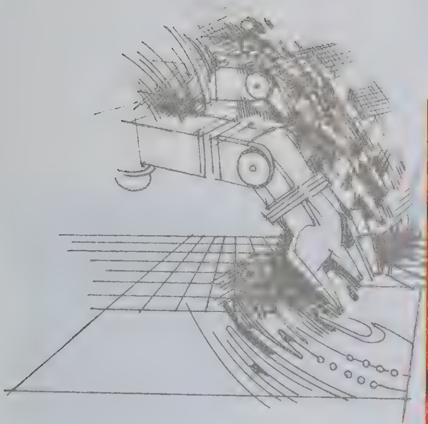
Capital spending during 1985 increased by 10 per cent to $623.8 million. The increased spending was required to provide for expansion of production capacity, particularly DMS switching, and for equipment and facilities used in research and development.

Northern Telecom employees now number more than 46,500. The company operates manufacturing plants in Canada, the United States, the United Kingdom, the Republic of Ireland, Malaysia and Brazil.

Senior management
In accordance with plans announced a year ago, Walter F. Light retired in April from the chairmanship of Northern Telecom following more than a decade of service as president, chief executive officer and chairman. He was succeeded as chairman by Edmund B. Fitzgerald who also continues as chief executive officer.

In June, David G. Vice was named president and a member of the Northern Telecom board of directors. Mr. Vice has been with Northern Telecom since 1955.

(Additional financial data are included in the Financial Review section beginning on page 20.)



The Meridian DV-1 Data Voice System offers advanced data processing and communications to small organizations, departments of larger organizations, and to branch offices.

Research and Development

Creativity and innovation at the cutting edge of communications technologies are the hallmarks of Bell-Northern Research Ltd. (BNR), the largest private industrial research and development organization in Canada.

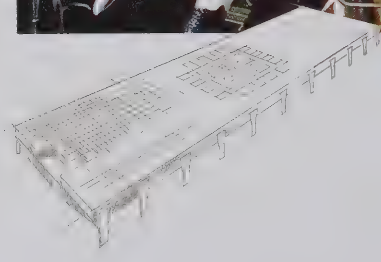
BNR laboratories led the world in the application of digital technology to telecommunications by developing the successful DMS and SL families of digital switching systems as part of Northern Telecom's Digital World™, which celebrates its tenth anniversary this year.

During 1985, spending on research and development programs by BNR increased by more than 25.7 per cent from the previous year to nearly $499.3 million.

A major R&D program has been the Meridian line of office products providing the base for integrating voice, data and image communications systems. Developed by BNR, the systems include the Meridian SL-1 and SL-100 Integrated Services Networks, which provide enhanced communications and integrated information services (including directory, messaging, forms, computing and share functions) to business organizations.

The Meridian DV-1 Data Voice System is designed for organizations or departments of 5 to 100 people. In addition, the Meridian line includes a range of other digital integrated voice and data terminals.

BNR continues to examine new ways to improve communications. The Meridian M3000 Touchphone™ developed by BNR is a sophisticated, sleek digital telephone on which a touch-sensitive liquid crystal display replaces the dial pad and all feature keys. It was designed for people who need many voice communications features and require some data capability.



BNR scientist Dr. Anthony SpringThorpe conducts an experiment with an advanced molecular beam epitaxy system in BNR's recently completed $3.5 million gallium arsenide laboratory.

Similarly, the Meridian M4020 Integrated Terminal™ places a world of information and communications capabilities at the fingertips of the business professional. Features included are screen-based multi-line calling, advanced telephone features and simultaneous use of voice, text and graphics.

The quality of very large-scale integrated (VLSI) circuit designs continues to be enhanced through state-of-the-art equipment and facilities. BNR recently purchased one of the world's most advanced integrated circuit testers, a $4 million chip testing system that can execute 11.5 billion tests per second, on a chip with 288 connecting pins.

Exploring new technologies keeps BNR on the leading edge of development. As part of its exploratory program, BNR constructed a $3.5 million laboratory facility, of 4,000 square feet, at its Ottawa research centre to build prototypes of gallium arsenide integrated circuits. These circuits employ technology which permits electrical signals to travel through an integrated circuit at several times the speed of more conventional silicon integrated circuits.

Nearly 5,000 employees work at BNR laboratories in Canada, the United States and the United Kingdom.

International Consulting & Interconnect Telecommunications Sales

International Consulting

During 1985, professionals from Bell Canada International Inc. (BCI) were engaged in 35 countries assisting telecommunications organizations, both public and private, to obtain maximum benefits from their networks and resources.

Throughout the year, more than 600 BCI personnel were in the Kingdom of Saudi Arabia assisting in the operation and maintenance of a national telecommunications system that has grown at a faster rate than any other in the world since BCI first became involved in 1977.

A Canadian staff numbering about 50, based in Malaysia, is developing an advanced Customer Automated Services System for Jabatan Telekom Malaysia, the country's national telecommunications service.

Other BCI personnel continued to assist and advise the Trinidad and Tobago Telephone Company with the furtherance of a major expansion and modernization program which has seen its network grow by more than 150 per cent since 1982.

In five West African countries — Benin, Mali, Senegal, Niger and Burkina Faso — BCI provided assistance in managing a 3,000-kilometre microwave network linking Dakar, in Senegal, with Cotonou, in Benin.

BCI extended its leading position in the European market for independent computer maintenance and information-handling services with the acquisition of four companies, in the United Kingdom, the Netherlands, France and Italy, which are being managed through BCI (U.K.) Limited.

Provision of digital systems expertise has involved BCI with numerous projects in the United States, including assisting in the design, engineering, implementation and management of a North American private digital network for use by General Motors. BCI Incorporated, a U.S. subsidiary, conducted over 300 computer-assisted training courses on the DMS family of digital switching systems for U.S. customers of Northern Telecom.

Eurotechnica SA of Paris, a subsidiary of Bell Canada International Inc., is a leading provider of data communications systems and applications in France.

BCI consultants also worked with the Deutsche Bundespost, the West German postal and telecommunications service, and supported Northern Telecom in the implementation of digital systems in Egypt, Hong Kong, the U.K. and the U.S.A.

Efforts to develop business in the People's Republic of China were intensified in 1985, and a BCI office was opened in Hong Kong in order to pursue opportunities in that potentially vast market.

Interconnect Telecommunications Sales

Bell Communications Systems Inc. (BCSI) is the industry leader in sales and service of interconnect telecommunications systems for use by a wide range of clients, particularly large business customers. Continuing growth during 1985 brought BCSI revenues for the year to $60.5 million, an increase of nearly 50 per cent over 1984.

In five years of operation, BCSI has installed 1,629 telecommunications systems, including 565 SL-1 systems. These represent a total of 184,350 service units. BCSI employs some 450 people and has 14 offices in eight key Quebec and Ontario business centres.

BCE's investment in energy is represented by its 47.8 per cent holding in TransCanada PipeLines Limited (TCPL), a $6.3 billion diversified Canadian energy company with interests in Canada, the United States and around the world. TCPL contributed $0.43 to BCE's earnings per common share in 1985.

TCPL owns and manages one of the world's longest pipelines, running from Alberta to Quebec, with some 4,400 kilometres of right-of-way, and has investments in several other major Canadian and U.S. pipelines. The company is the largest buyer of western Canadian natural gas.

Western Gas Marketing Ltd., a subsidiary established in December 1985, administers the company's contracts for about 50 per cent of Alberta's natural gas reserves and maintains some 2,700 gas purchase contracts with about 650 western Canadian producers.

Operations

1985 pipeline operations saw deliveries reach an all-time high of 34,134 million cubic metres (mmcm) of gas. Domestic deliveries set a new record for the second consecutive year, reaching 26,515 mmcm, compared with 26,183 mmcm in 1984. Export sales and transportation volumes to U.S. markets grew to 7,618 mmcm, a 13 per cent increase from the previous year.

TCPL's other pipeline interests include a 50 per cent holding in Trans Québec & Maritimes Pipeline Inc.; 50 per cent ownership of Great Lakes Gas Transmission Company; 44 per cent in Foothills Pipe Lines (Sask.) Ltd.; and 30 per cent of Northern Border Pipeline Company. In addition to the pipeline interests, TCPL owns 100 per cent of Cancarb Limited, which manufactures and markets worldwide a premium quality carbon black, and 100 per cent of International PipeLine Engineering Limited, an international consulting service.

Proposed pipelines

TCPL filed an application in 1985 seeking National Energy Board (NEB) approval for construction of a natural gas pipeline to transport Canadian gas to the northeastern United States. To be known as the TransNiagara Project, the proposal would see Alberta gas move through the TCPL system to an export point at Niagara Falls, Ontario.

Also during 1985, the Polar Gas Project, managed by TCPL, filed additions to its 1984 application with the NEB to build a $3.3 billion natural gas pipeline from the Mackenzie Delta to connect with existing pipelines carrying gas to Canadian and U.S. markets.

Sable Gas Systems Limited, a partnership of TCPL and Crown-owned Nova Scotia Resources Limited, notified the NEB in September that it intends to seek approval for construction of a hydrocarbon transmission system which would deliver gas that has been discovered off the shore of Nova Scotia to an export point near St. Stephen, New Brunswick.

Together with four U.S. utilities, TCPL also is considering a separate proposal to build a new pipeline to carry up to 400 million cubic feet of gas per day across the states of New York and Connecticut to a termination point on Long Island. The pipeline would run 590 kilometres from a point near Iroquois, Ontario.

Deregulation

On October 31, 1985, the federal government and the western producing provinces announced an agreement on natural gas markets and prices which lays the foundation for deregulation of domestic gas markets. The Alberta border price and the Toronto wholesale price were frozen for a one-year transition period until November 1, 1986, after which prices of all natural gas in interprovincial trade will be determined through negotiations between buyers and sellers.

Pursuant to certain take-or-pay clauses in gas purchase contracts entered into in the past, western Canadian gas producers have been paid for gas contracted by TCPL but not taken, because contracted supply has exceeded demand in recent years. Advances of $2.7 billion to producers, of which approximately $2.3 billion remained outstanding as at December 31, 1985, were made directly by banking syndicates.

Payment of interest and repayment of principal by the gas producers to the banking syndicates have been proceeding from revenues generated by gas deliveries from those producers to TCPL. TCPL has provided guarantees of up to $360 million to the banking syndicates for any loss that may arise because, among other things, a producer is unable, or fails, to deliver prepaid gas. A hearing commenced on January 13, 1986, before the NEB to consider, among other things, the equitable sharing of take-or-pay charges.

TCPL will compete aggressively in the deregulated environment by applying competitive marketing programs (CMP). In early January 1986, Western Gas Marketing announced Canada's first CMP for the sale of natural gas to the ammonia operation of C-I-L, Inc., at Courtright, Ontario, one of Canada's largest industrial users of natural gas.

For export sales, the October 31 agreement removed limitations on volumes for short term gas exports and

also eliminated the use of the Toronto wholesale price as the floor price for all exports. Export floor prices now will be based on the price of gas to Canadians in the area nearest to the point of export.

The northeast of the United States, which has total annual natural gas consumption of about 62 billion cubic metres, is viewed by TCPL as the area of greatest immediate potential for new Canadian export sales. Exports to Boundary Gas, of Boston, accounted for 382 mmcm of Canadian gas in 1985. Boundary Gas is a consortium of 15 utilities serving New England.

Natural resources

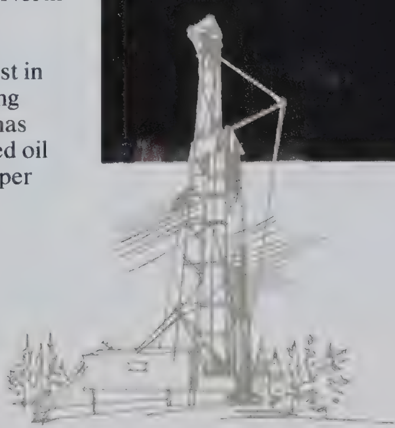
TCPL's North American activities in exploration, development and production of oil and natural gas are carried out through TCPL Resources Ltd., in Canada; and through TCPL Resources U.S.A. in the United States.

The majority of western Canadian exploration activities are carried out through a joint exploration agreement with Dome Petroleum Limited. Since 1984, however, TCPL Resources has been extending an independent program of exploration and development which, in 1985, was highlighted by six discoveries.

Outside North America, TCPL has oil and gas interests in Indonesia, Australia, Italy, and in the United Kingdom and Netherlands sectors of the North Sea.

TCPL has a 7.08 per cent interest in the Malacca Strait production-sharing contract on which a new discovery has been made. The discovery well tested oil at a combined rate of 14,500 barrels per day.

The TransCanada PipeLines gas control centre monitors and controls the flow of gas through the pipeline 24 hours a day to ensure that gas is delivered efficiently and economically.



Printing, Packaging and Publishing

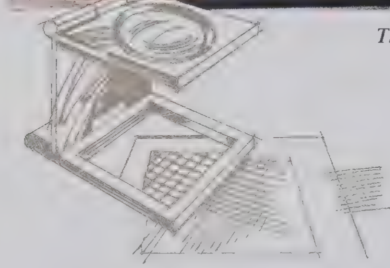
Tele-Direct (Canada) Inc., a major BCE subsidiary, is a holding company. Through subsidiaries, Tele-Direct engages in the sale of directory advertising services and in printing, packaging and publishing. It reported total 1985 revenues of $602.3 million, up by 44.4 per cent from $417.2 million in 1984. The results reflected the first full year of operations since acquiring, during 1984, The Case-Hoyt Corporation, of Rochester, N.Y., and British American Bank Note Inc. (BABN), of Ottawa. Tele-Direct operations contributed $0.08 to BCE's earnings per share.

Corporate changes during the year included acquisition, through Case-Hoyt, of full ownership of Great Lakes Press Corporation, of Rochester, N.Y., and a 20 per cent equity position in Telemap Limited, a United Kingdom company engaged in electronic publishing. Sale of Comac Communications Limited, a subsidiary engaged in the publication of controlled circulation consumer magazines, was completed early in 1986.

BCE PubliTech Inc. was created, in early 1986, as a new holding corporation replacing Tele-Direct (Canada) Inc. Under BCE PubliTech, the corporate structure was realigned to achieve greater managerial and operational efficiencies, and to better position the subsidiaries to respond to the needs of their diverse markets. The new organizational structure, under one central management, comprises a directory group, a commercial printing and packaging group, and a security printing group.

The BCE PubliTech companies are active in many areas. In the United States, operations of National Telephone Directory Corporation, a wholly-owned subsidiary, were highlighted by the signing of two major new, long term contracts to provide Yellow Pages™ services in the states of Pennsylvania and Delaware.

Traditional hand engraving skills still flourish at British American Bank Note Inc. Using a burin, an engraver cuts the reverse design into steel.



A 49 per cent owned associate in Australia, Edward H. O'Brien Pty. Limited, obtained another five-year contract to service the state of New South Wales. The company also closed new contracts to provide directory advertising services in Papua-New Guinea and Fiji.

Ronalds Printing has plants across Canada, concentrating on the printing of telephone directories and major consumer magazines. Case-Hoyt has plants at Rochester, N.Y., producing high quality specialty publications, annual reports and corporate literature.

Specialty packaging for a wide variety of consumer products is produced by Rolph-Clark-Stone Packaging at plants in Canada and the United States.

BABN engraves and prints banknotes, bonds, treasury bills, postage stamps and security certificates. BABN also produces lottery tickets and the necessary software backup, together with banking instruments such as account cheques, traveller's cheques and credit cards.

TDL Woodtreating Ltd., of Mississauga, Ontario, specializes in the production of utility poles, for use by utility companies in many parts of Canada, and in treated lumber for use by building contractors.

Other BCE PubliTech subsidiaries are engaged in commercial leasing services, list brokerage and the publishing of trade periodicals.

Real Estate

BCE's real estate interests broadened considerably during 1985 with the acquisition of Daon Development Corporation (Daon), a Vancouver-based company with assets of $1.2 billion in several parts of Canada and the United States. BCE's holding at December 31, 1985, was 67.9 per cent.

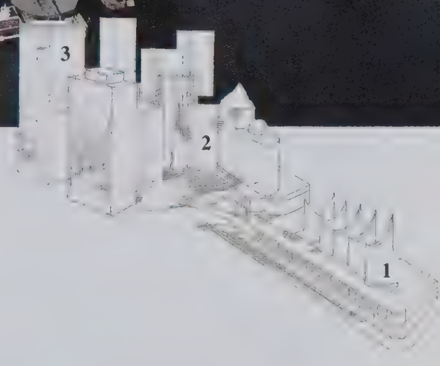
The company had been constrained by a financial restructuring plan which limited operational scope but, in the latter part of the year, Daon reached new agreements with its lenders which will enable it to raise capital more freely, make investments and engage in new projects. This change allowed Daon to proceed with plans to acquire from BCE its interest in several real estate properties, including The Permanent building, in Toronto. Options were also granted to acquire BCE's 50 per cent interest in BCE Place, also in Toronto, and to acquire BCE's 50 per cent interest in an office building site in Dallas, Texas.

At Daon's annual general meeting, in February 1986, shareholders approved a change of name for the company, which is now known as BCE Development Corporation (BCED). The company's headquarters remain in Vancouver.

BCED plans to develop a diversified portfolio of office buildings and shopping centres in various parts of North America and is engaged in several significant projects. These include:

- a one million sq. ft. office development in Mississauga, Ontario. Phase One of the multi-phase project will begin in 1986;
- an 850,000 sq. ft. regional shopping centre to be built in northwest Calgary in a joint venture with First City Development Corp. Ltd.;
- a 60,000 sq. ft. retail centre under construction in Vancouver, for completion in 1986;
- a 237,000 sq. ft. twin-tower office complex being constructed for occupancy this year in Irvine, California, in a joint venture with a California developer;
- a 550-room resort hotel at Indian Wells, California, near Palm Springs. A joint venture with Stouffer Hotel Company, the project is planned for completion late in 1987;
- a 23-acre industrial park in Torrance, California, to be developed in 1986 and 1987.

Forward planning continued in 1985 for construction of BCE Place, a major office complex to occupy most of a block in downtown Toronto. Demolition of previous buildings has been completed on the portion of the site to be occupied by Canada Trust Tower, the first structure planned for the development.



(1) The Canada Pavilion, with its distinctive nautical architectural styling, has become a striking landmark on Vancouver's Burrard Inlet.

(2) The BCED Centre (formerly the Daon Centre), with its golden, mirrored facade, is the headquarters of BCE Development Corporation and is said to be Vancouver's most photographed building.

(3) Another landmark BCED structure in Vancouver is Park Place, one of the city's most prestigious office addresses.

Financial Review

Consolidated net income applicable to common shares increased by 12.8 per cent in 1985 to $1,009.0 million ($4.23 per common share), compared with $894.2 million ($4.03 per share) in 1984 and $692.9 million, before extraordinary items, ($3.46 per share) in 1983. The growth in consolidated net income in 1985 occurred principally during the first half of the year. Consolidated net income applicable to common shares in the second half of the year was $500.9 million ($2.07 per common share) compared with $487.6 million ($2.16 per share) in the same period of 1984.

Earnings per share increased by 5.0 per cent in 1985 compared with 16.5 per cent in 1984 and 13.4 per cent in 1983. Earnings per share for 1985 were based on an average of 238.5 million common shares outstanding, compared with 221.7 million in 1984 and 200.3 million in 1983.

Bell Canada contributed $2.65 to earnings per share in 1985, compared with $2.69 in 1984 and $2.71 in 1983. Northern Telecom, 52.0 per cent owned by BCE, contributed $0.82 to earnings per share, compared with $0.74 in 1984 and $0.60 in 1983. Other companies (including $0.43 from TransCanada PipeLines Limited (TCPL) and $0.33 from international consulting services) contributed $0.94 in 1985 compared with $0.81 (including $0.41 from TCPL and $0.24 from international consulting services) in 1984 and $0.41 in 1983.

Consolidated earnings per common share are after deducting preferred dividend requirements equivalent to $0.18 per share in 1985, $0.21 in 1984 and $0.26 in 1983.

Telecommunications Operations

Operating revenues of Bell Canada and other telecommunications subsidiaries increased by $491.3 million (8.9 per cent) in 1985, by $464.8 million (9.2 per cent) in 1984 and by $385.0 million (8.2 per cent) in 1983. The increase in 1985 is due primarily to increased demand for telecommunications services and, to a lesser extent, to the interim rate increase of approximately 2 per cent for certain services of Bell Canada, approved by the Canadian Radio-television and Telecommunications Commission, which became effective on January 1, 1985, and which was suspended as of September 1, 1985.

Local service revenues increased by $59.3 million (2.6 per cent) in 1985, compared with $70.5 million (3.2 per cent) in 1984 and $88.2 million (4.1 per cent) in 1983. Excluding the year over year impact of rate increases, local service revenues increased by 1.4 per cent in 1985 over 1984, and by 0.7 per cent in 1984 over 1983. Network access services, which account for the major portion of local service revenues, increased 3.9 per cent in 1985 compared with 3.7 per cent in 1984 and 2.5 per cent in 1983. In 1984 and 1985, this growth occurred in both the residential and the business markets. The local service revenue increases, resulting from growth in network access services and rate increases, were partially offset by the impact of prior conversions from traditional rental services to sales-type lease services and some erosion in the market share for the provision of terminal equipment.

Long distance revenues increased by $301.2 million (11.0 per cent) in 1985, compared with $258.1 million (10.4 per cent) in 1984 and $204.7 million (9.0 per cent) in 1983. Excluding the year over year effect of rate increases, long distance revenues increased by 10.3 per cent in 1985 and 8.5 per cent in 1984, and resulted primarily from increases in the number of long distance messages. In 1985, the long distance messages were 977.5 million, an increase of 82.3 million over 1984. The number of long distance messages increased 9.2 per cent in 1985 over 1984 and 7.4 per cent in 1984 over 1983.

Operating expenses increased by $341.9 million (8.6 per cent) in 1985, by $315.5 million (8.7 per cent) in 1984 and by $167.3 million (4.8 per cent) in 1983. The increase in 1985 is due to higher depreciation expense, the expensing of inside wiring on business premises and certain other costs, and to higher employee related expenses. Increases were partially offset by the savings resulting from the continuing controls on the number of employees and by other cost containment measures, including emphasis on productivity.

Telecommunications Equipment Manufacturing

Revenues of Northern Telecom increased by $1,445.3 million (33.4 per cent) in 1985, $1,072.7 million (33.0 per cent) in 1984 and $261.8 million (8.8 per cent) in 1983. These increases were attributable principally to volume growth rather than price changes.

The United States continued in 1985 to account for the largest part of Northern Telecom's growth. Northern Telecom's sales to the Canadian market continued to recover after the decline in 1983. Revenues from international markets increased by $67 million (38.5 per cent) in 1985 over 1984 and by $9 million (5.5 per cent) in 1984 over 1983.

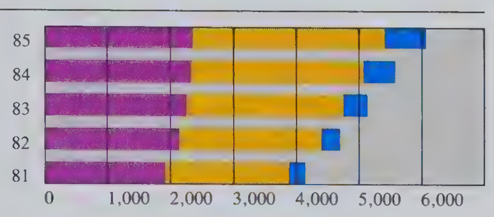
U.S. revenues were $3,930 million in 1985 (68.2 per cent of total revenues), an increase of 39.1 per cent from the $2,826 million in 1984 (65.4 per cent of total revenues); 1983 revenues were $1,887 million (58.1 per cent of total revenues).

Canadian revenues were $1,648 million (28.6 per cent of total revenues) in 1985, a 19.5 per cent increase from $1,379 million (31.9 per cent of total revenues) in 1984, which represented a 10.1 per cent increase from the 1983 level of $1,252 million (38.5 per cent of total revenues).

Revenues for each of the five product lines increased in 1985. The most significant gain was recorded by central office switching, up 55 per cent.

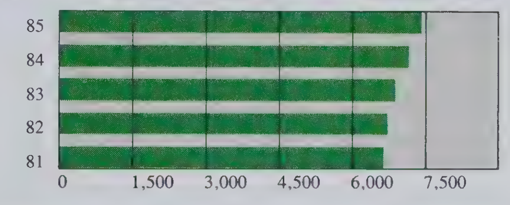
Central office switching revenues in 1985 were $2,923 million, compared with $1,886 million in 1984, and $1,211 million in 1983. The increases were due to demand for Digital Multiplex System (DMS) central office switches, the revenues from which rose 66.6 per cent to $2,691 million in 1985, compared with $1,615 million in 1984 and $962 million in 1983.

Telecommunications operations – revenues
(millions of dollars)

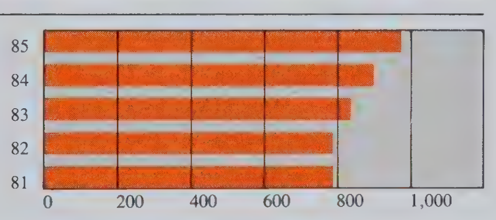


Local service
Long distance service
Directory advertising and miscellaneous – net

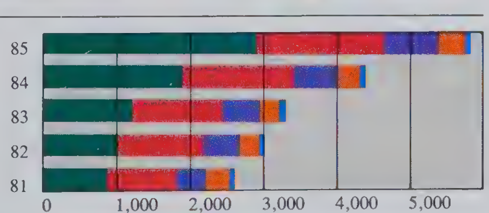
Network access services
(thousands)



Long distance messages
(millions)

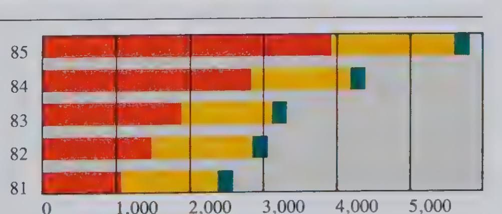


NTL revenues by product lines
(millions of dollars)



Switching
Integrated business systems and terminals
Transmission equipment
Cable and outside plant
Other

NTL revenues by geographic areas
(millions of dollars)



United States
Canada
Other

Integrated business systems and terminals revenues rose 13.7 per cent to $1,715 million in 1985, compared with $1,508 million in 1984 and $1,215 million in 1983. Meridian SL PBX revenues led the increase in 1985.

Transmission revenues were $738 million in 1985, compared with $600 million in 1984, and $520 million in 1983. Revenues from cable and outside plant products rose 16.5 per cent to $360 million in 1985, compared with $309 million in 1984 and $284 million in 1983.

Net revenues from manufacturing operations were $580.9 million, compared with $469.7 million in 1984 and $297.1 million in 1983. The increase in 1985 was 23.7 per cent, compared with 58.1 per cent in 1984 and 46.1 per cent in 1983. The decline in the rate of increase in 1985 from 1984 was mainly due to price reductions to meet increased competition and to new feature introduction costs, both relating to DMS switching equipment. Also contributing to the decline were higher transmission product introduction costs and costs associated with the phasing out of analog transmission products. The increase in 1984 over 1983 was principally due to the higher profitability of the DMS switching family and its increasing proportion of revenues.

The orders on hand at December 31, 1985, were $2.1 billion, down 10 per cent from $2.3 billion a year earlier; the orders on hand at the end of 1983 were $1.5 billion. Most of the current orders on hand are for delivery in 1986. The reduction in orders on hand at the end of 1985 resulted principally from delays in the introduction of software for new products; and from delays in receiving orders, due to difficulties with the introduction of feature additions and enhancements to certain products in the DMS and Meridian SL product families.

Selling, general and administrative expenses (SG&A) amounted to $951.2 million in 1985, up 22.3 per cent from $777.7 million in 1984 and from

$556.7 million in 1983. The SG&A spending as a percentage of total revenues represented 16.5 per cent in 1985, 18.0 per cent in 1984 and 17.1 per cent in 1983. The higher SG&A expenses in 1985 were mainly due to the full-year impact of the 1984 expansion of U.S. marketing, sales and services forces, which reflected growth in U.S. revenues. In 1985, Northern Telecom restructured its European and Pacific operations, to accelerate the development of business outside North America. Northern Telecom has also increased its marketing and promotion expenditures in 1985.

Research and Development (R&D)

Consolidated R&D expenditures amounted to $706.5 million in 1985 (an increase of 30.1 per cent over 1984), compared with $543.1 million in 1984 and $429.2 million in 1983. The largest portion was expended by Northern Telecom, whose net R&D spending in 1985 was $586.3 million, compared with $431.5 million in 1984; the 1983 level was $324.8 million. Northern Telecom's R&D spending as a percentage of total revenues has remained at 10 per cent for each of the last three years.

Other Operations

Other operations include international consulting services; printing, packaging and publishing; real estate and other fields. 1985 revenues were $1,458.9 million (of which $401.2 million was attributable to the inclusion of BCE Development Corporation (BCED), formerly Daon Development Corporation), compared with $716.8 million in 1984 and $550.3 million in 1983. Operating expenses were $1,280.7 million in 1985 (including $399.6 million related to BCED), compared with $604.9 million reported in 1984 and $473.6 million in 1983. The increase in 1984 over 1983 reflects the acquisition in the year 1984 of subsidiaries in the printing business. The increases in net revenues for 1985 and 1984 are due principally to the contribution by international consulting services.

Liquidity and Capital Resources

The principal requirement for funds is for capital expenditures and to acquire new and additional investments.

Consolidated net capital expenditures during 1985 were $2,427.9 million, compared with $1,961.6 million in 1984 and $1,572.4 million in 1983. Substantially all such capital expenditures were made by subsidiaries, particularly Bell Canada and Northern Telecom.

Principal consolidated investments acquired during the last three years amounted to $477.6 million in 1985, $273.3 million in 1984 and $617.8 million in 1983, respectively. The amount for 1985 included additional investments of $144.4 million in non-consolidated finance subsidiaries, $51.3 million in TCPL, $10.5 million in Bruncor Inc., as well as investments of $162.9 million in BCED and $35.2 million in Computer Innovations Distribution Inc. The amount for 1984 included additional investments of $108.8 million in TCPL, as well as investments in British American Bank Note Inc. and The Case-Hoyt Corporation, which were acquired in exchange for BCE common shares with an aggregate value of $111.1 million. The amount for 1983 included investments in TCPL of $601.1 million.

Bell Canada Enterprises Inc.

BCE raised new common equity of $405.6 million in 1985 and $408 million in 1984, principally through the Dividend Reinvestment and Stock Purchase Plan. More than $200 million of the amount raised in 1985 under the plan was invested by individuals resident in the province of Quebec. The extent of such payments in the future may be significantly reduced as a result of proposed changes to Quebec income tax legislation. On February 22, 1986, BCE entered into an underwriting agreement in connection with a proposed public offering in Japan of 5,000,000 common shares to be issued at a price of $38.362 per share. BCE's short term borrowings amounted to $89 million at December 31, 1985, compared with $279.1 million at December 31, 1984. In 1985, BCE issued $150 million of five-year notes and redeemed $150 million ($75 million in 1984) of the Second Preferred Shares, Series One, held by Bell Canada.

Bell Canada

Gross capital expenditures were $1,409 million in 1985, compared with $1,179 million in 1984, reflecting the increase of growth rates in demand for services, partially offset by the expensing of inside wiring on business premises and certain other costs. Based on Bell Canada's current budget, it is estimated that Bell Canada's capital expenditure program in 1986 will increase by approximately 8 per cent to $1,520 million.

Bell Canada's cash requirements in 1986, except for less than one quarter of the capital expenditures and the repayment of approximately $186 million of long term debt maturing during the year, will be met by internally generated funds. In 1985, Bell Canada completed public offerings in Europe and in Canada of two debenture issues of $125 million each; and sold in Canada $125 million of its preferred shares. In 1984, two $125 million debenture issues were sold in Canada.

Northern Telecom

Capital expenditures in 1985 were $623.8 million, up 9.5 per cent from $569.6 million in 1984 and $376.9 million in 1983. During 1985, Northern Telecom issued $100 million of preferred shares in Canada. Also in 1985, a wholly-owned non-consolidated finance subsidiary issued (US) $50 million (Cdn. $68.9 million) of 10% debentures in Europe, unconditionally guaranteed by Northern Telecom. During 1984, Northern Telecom issued three series of preferred shares and the aggregate funds received after deducting net issue costs amounted to $382.1 million. Capital expenditures in 1986 are expected to decrease to approximately $525 million, reflecting less spending on expansion of Northern Telecom's facilities. In 1986, Northern Telecom expects to meet its funding requirements principally from internally generated sources.

Bell Canada Enterprises Inc.
December 31, 1985

Consolidated Financial Statements

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Bell Canada Enterprises Inc. and its subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the board of directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the corporation and its subsidiaries, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the corporation's annual consolidated financial statements and recommends their approval by the board of directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

These financial statements have been examined by the shareholders' auditors, Touche Ross & Co., chartered accountants, and their report is presented below.

Donald R. Newman
Vice-President and Comptroller

Auditors' Report

The Shareholders, Bell Canada Enterprises Inc.

We have examined the consolidated balance sheets of Bell Canada Enterprises Inc. and subsidiaries as at December 31, 1985 and 1984 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1985 in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Chartered Accountants

Montreal, Quebec
February 13, 1986 (except for note 21,
which is dated March 3, 1986)

Consolidated Income Statement

	For the years ended December 31	1985	1984	1983
		millions of dollars		
Telecommunications operations	Operating revenues	**$6,032.2**	$5,540.9	$5,076.1
	Operating expenses	**4,297.1**	3,955.2	3,639.7
	Net revenues — telecommunications operations	**1,735.1**	**1,585.7**	**1,436.4**
Telecommunications equipment manufacturing	Revenues (note 1)	**5,766.3**	4,321.0	3,248.3
	Cost of revenues	**3,647.9**	2,642.1	2,069.7
	Selling, general, administrative and other expenses	**1,537.5**	1,209.2	881.5
		5,185.4	3,851.3	2,951.2
	Net revenues — telecommunications equipment manufacturing	**580.9**	**469.7**	**297.1**
Other operations	Operating revenues	**1,458.9**	716.8	550.3
	Operating expenses	**1,280.7**	604.9	473.6
	Net revenues — other operations	**178.2**	**111.9**	**76.7**
	Total net revenues	**2,494.2**	**2,167.3**	**1,810.2**
Other income (expenses)	Equity in net income of associated companies (note 2)	**123.5**	115.1	24.2
	Allowance for funds used during construction	**22.7**	21.2	22.1
	Interest — long term debt	**(522.3)**	(458.9)	(447.6)
	— other debt	**(69.8)**	(68.3)	(25.8)
	Unrealized foreign currency losses (notes 1 and 18)	**(37.8)**	(21.0)	(12.2)
	Miscellaneous — net	**123.1**	112.5	125.2
		(360.6)	**(299.4)**	**(314.1)**
	Income before income taxes, minority interest and extraordinary items	**2,133.6**	1,867.9	1,496.1
	Income taxes (note 4)	**847.3**	747.2	632.9
	Income before minority interest and extraordinary items	**1,286.3**	1,120.7	863.2
	Minority interest	**235.5**	180.4	118.0
	Income before extraordinary items	**1,050.8**	940.3	745.2
	Extraordinary items (note 5)	**—**	—	84.6
	Net income (note 18)	**1,050.8**	**940.3**	**829.8**
	Dividends on first preferred shares	**41.8**	46.1	52.3
	Net income applicable to common shares	**$1,009.0**	**$ 894.2**	**$ 777.5**
Earnings per share	Earnings per common share (notes 6 and 18)			
	before extraordinary items	**$4.23**	$4.03	$3.46
	after extraordinary items	**$4.23**	$4.03	$3.88
	Assuming full dilution			
	before extraordinary items	**$4.13**	$3.92	$3.37
	after extraordinary items	**$4.13**	$3.92	$3.76
	Dividends declared per common share	**$2.30**	$2.205	$2.105
	Average common shares outstanding (thousands)	**238,541**	221,702	200,349

The important differences between Canadian and United States generally accepted accounting principles affecting the consolidated income statement are described and reconciled in note 18.

Consolidated Balance Sheet

Assets

As at December 31		1985	1984
		millions of dollars	
Current assets	Cash and temporary cash investments — at cost (approximates market)	$ **279.5**	$ 330.2
	Accounts receivable — principally from customers, including $27.0 (1984 — $23.0) from associated companies, and less $59.2 (1984 — $62.3) for provision for uncollectibles	**2,458.4**	1,965.1
	Inventories (note 8)	**1,219.9**	1,219.8
	Other (principally prepaid expenses)	**147.2**	119.6
		4,105.0	**3,634.7**
Investments (at equity)	Associated companies (notes 1 and 2)	**1,111.0**	945.3
	Non-consolidated finance subsidiaries (notes 1 and 3)	**691.4**	478.1
		1,802.4	**1,423.4**
Property, plant and equipment (note 9)	At cost	**20,016.8**	17,388.4
	Less: Accumulated depreciation	**6,519.3**	5,732.8
		13,497.5	**11,655.6**
Other assets	Long term notes and receivables	**632.3**	350.4
	Deferred charges — unrealized foreign currency losses, less amortization	**347.9**	257.0
	— other	**143.4**	106.6
	Cost of shares in subsidiaries in excess of underlying net assets, less amortization (note 1)	**54.9**	58.3
		1,178.5	**772.3**
	Total assets	**$20,583.4**	**$17,486.0**

On behalf of the Board of Directors:

Marcel Bélanger
Director

James W. Kerr
Director

Liabilities and Shareholders' Equity

	As at December 31	1985	1984
		millions of dollars	
Current liabilities	Accounts payable	**$ 1,760.2**	$ 1,505.2
	Advanced billing and payments	**104.7**	93.5
	Dividends payable	**160.4**	146.4
	Taxes accrued	**340.4**	229.9
	Interest accrued	**123.6**	112.5
	Debt due within one year (note 10)	**733.6**	820.6
		3,222.9	**2,908.1**
Long term debt	Long term debt (including unrealized foreign currency losses) (note 11)	**5,639.7**	**4,469.3**
Deferred credits	Income taxes	**1,765.5**	1,693.0
	Other	**439.8**	372.1
		2,205.3	**2,065.1**
Minority interest in subsidiary companies	Preferred shares	**676.1**	423.8
	Common shares	**1,217.5**	925.3
		1,893.6	**1,349.1**
Preferred shares	Preferred shares (redeemable) (note 12)	**312.9**	**377.5**
Common shareholders' equity	Stated capital of common shares (note 13)	**3,381.5**	2,912.0
	Contributed surplus	**1,033.5**	1,033.5
	Retained earnings	**2,756.8**	2,301.3
	Foreign exchange adjustment (note 14)	**137.2**	70.1
		7,309.0	**6,316.9**
Commitments and contingent liabilities (notes 7 and 11)			
	Total liabilities and shareholders' equity	**$20,583.4**	**$17,486.0**

Donald R. Newman
Vice-President and Comptroller

Consolidated Statement of Retained Earnings

For the years ended December 31	1985	1984	1983
		millions of dollars	
Balance at beginning of year	**$2,301.3**	**$1,902.0**	**$1,556.9**
Net income	**1,050.8**	940.3	829.8
Excess of stated capital over cost of preferred shares purchased for cancellation (note 12)	—	.1	.2
	3,352.1	**2,842.4**	**2,386.9**
Deduct:			
Dividends			
First preferred shares	**41.8**	46.1	52.3
Common shares	**550.1**	491.0	423.9
	591.9	**537.1**	**476.2**
Expenses of issues of share capital	**3.4**	4.0	8.7
	595.3	**541.1**	**484.9**
Balance at end of year	**$2,756.8**	**$2,301.3**	**$1,902.0**

Consolidated Statement of Changes in Financial Position

For the years ended December 31	1985	1984	1983
	millions of dollars		
Cash provided from (used for) operating activities			
Income before extraordinary items	**$1,050.8**	$ 940.3	$ 745.2
Items not affecting cash			
Depreciation	**1,312.2**	1,152.1	1,015.1
Minority interest	**235.5**	180.4	118.0
Deferred income taxes	**52.1**	161.9	91.3
Equity in net income of associated companies in excess of dividends received	**(58.5)**	(60.8)	(8.8)
Equity in earnings of non-consolidated finance subsidiaries	**(44.6)**	(55.9)	(49.8)
Allowance for funds used during construction	**(22.7)**	(21.2)	(22.1)
Other items	**117.3**	82.1	123.0
Cash recovery from real estate sales (net of debt discharged of $269.0)	**99.8**	—	—
Increase in working capital (note 16)	**(119.2)**	(645.4)	(102.6)
Extraordinary items (note 5)	**—**	—	22.0
	2,622.7	**1,733.5**	**1,931.3**
Cash provided from (used for) financing activities			
Proceeds from long term debt	**682.1**	285.3	17.0
Reduction of long term debt	**(419.3)**	(171.6)	(243.1)
Issue of common shares			
Underwritten issue	**—**	—	328.0
Dividend Reinvestment and Stock Purchase Plan	**378.9**	379.2	245.0
Optional Stock Dividend Program	**17.6**	17.6	15.0
On acquisition of subsidiaries	**—**	111.1	—
Issues of preferred and common shares by subsidiaries to minority shareholders	**257.6**	403.0	221.9
Notes payable and bank advances	**(334.4)**	223.2	203.9
Amount due to non-consolidated finance subsidiaries	**146.5**	(18.0)	(59.4)
Dividends from a non-consolidated finance subsidiary	**7.9**	23.5	54.0
Other items	**(5.5)**	(6.8)	(41.7)
	731.4	**1,246.5**	**740.6**
Cash provided from (used for) investing activities			
Capital expenditures (net)	**(2,427.9)**	(1,961.6)	(1,572.4)
Investments (less working capital of $115.4 acquired in 1985, 1984 — $38.1)	**(362.2)**	(235.2)	(617.8)
Long term notes and receivables	**(78.0)**	(267.3)	(31.6)
Other items	**127.5**	96.1	78.6
	(2,740.6)	**(2,368.0)**	**(2,143.2)**
Dividends declared by			
The parent corporation	**(591.9)**	(537.1)	(476.2)
Subsidiaries to minority shareholders	**(72.3)**	(46.8)	(29.0)
	(664.2)	**(583.9)**	**(505.2)**
Cash and temporary cash investments			
Increase (decrease)	**(50.7)**	28.1	23.5
At beginning of year	**330.2**	302.1	278.6
At end of year	**$ 279.5**	**$ 330.2**	**$ 302.1**

Notes to Consolidated Financial Statements

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and all figures are in Canadian dollars. These statements conform in all material respects with International Accounting Standards. Certain previously reported figures have been reclassified to conform with the 1985 presentation.

With respect to the consolidated financial statements of BCE, the important differences between Canadian and United States generally accepted accounting principles are described and reconciled in note 18.

Consolidation
The consolidated financial statements include the accounts of all majority-owned subsidiaries, either direct or indirect, except for finance subsidiaries of Northern Telecom Limited. These non-consolidated finance subsidiaries and the investments in associated companies (20% to 50% owned) are accounted for by the equity method. The finance subsidiaries are not consolidated because their business is fundamentally different from that of the consolidated group.

At December 31, 1985, the direct subsidiaries of BCE (all 100% owned, unless otherwise indicated) included Bell Canada, Northern Telecom Limited (52.0%), Tele-Direct (Canada) Inc., NewTel Enterprises Limited (53.4%), Télébec Ltée, Northern Telephone Limited (99.8%), Bell Canada International Inc., Bell Communications Systems Inc., BCE Realty Inc. and Daon Development Corporation (Daon) (67.9%). In October 1985, NewTel Enterprises Limited became the parent corporation of Newfoundland Telephone Company Limited.

Daon, a real estate development corporation, was acquired in the first quarter of 1985 for a cash consideration of $162.9 million, including $39 million for newly issued shares of Daon. The excess of cost over book value, at time of acquisition, was fully allocated to real estate properties which were sold in the third quarter of 1985.

The excess of cost of shares over acquired equity (goodwill) of subsidiary and associated companies is being amortized to earnings on a straight line basis over its estimated life. The amortization, over varying periods up to twenty years, amounted to $17.5 million in 1985 (1984 — $32.7, 1983 — $2.2).

Telecommunications equipment purchased by Bell Canada and the other telephone subsidiaries of BCE from Northern Telecom Limited and its subsidiaries is reflected in BCE's consolidated balance sheets at the cost to the purchasing companies and is included in telecommunications equipment manufacturing revenues in the consolidated income statement. To the extent that any income related to these revenues and those from associated companies has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. This practice is generally followed with respect to activities of regulated industries. All other significant intercompany transactions have been eliminated in the consolidated financial statements.

Telecommunications equipment manufacturing revenues comprise:

	1985	1984	1983
	millions of dollars		
Revenues from			
Bell Canada	**$ 989.4**	$ 763.9	$ 683.0
Other telephone subsidiary and associated companies of BCE	**96.9**	82.4	60.2
Sub-total	**1,086.3**	**846.3**	**743.2**
Revenues from others	**4,680.0**	3,474.7	2,505.1
Total revenues	**$5,766.3**	**$4,321.0**	**$3,248.3**

1. ACCOUNTING POLICIES (continued)

Depreciation

Depreciation is generally computed on the straight line method using rates based on the estimated useful lives of the assets.

When depreciable telecommunications property is retired, the amount at which it has been carried in telecommunications property is charged to accumulated depreciation.

Depreciation expense, including amortization of property held under capital leases, for the year ended December 31, 1985, was $1,312.2 million (1984 — $1,152.1, 1983 — $1,015.1) and the composite rate was 7.41% (1984 — 7.15%, 1983 — 6.86%).

Research and development

All research and development costs incurred, which amounted to $706.5 million (1984 — $543.1, 1983 — $429.2), were charged to income.

Translation of foreign currencies

Foreign operations are classified as integrated or self-sustaining.

— Integrated foreign operations and transactions denominated in foreign currencies

Current assets (excluding inventories and prepaid expenses), current liabilities and long term monetary assets and liabilities are translated at the rates in effect at the balance sheet date; whereas other assets and other liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year, except for cost of inventory used, depreciation and amortization, which are translated at exchange rates prevailing when the related assets were manufactured or acquired. Currency gains and losses are reflected in net income of the year, except for unrealized foreign currency gains and losses on long term monetary assets and liabilities, which are reported as a deferred charge and amortized over the remaining lives of the related items on a straight line basis.

— Self-sustaining foreign operations

Assets and liabilities denominated in a foreign currency are translated in Canadian dollars at exchange rates in effect at the balance sheet date. The resulting gains or losses are accumulated in a separate component of shareholders' equity. Revenue and expense items are translated at average exchange rates prevailing during the year.

Leases

Leases are classified as capital or operating leases. When the corporation is the lessor, rental revenue from operating leases is recognized as service is provided to customers. For leases which qualify as sales-type leases, the sales revenue is recorded at the inception of the lease. When the corporation is the lessee, assets recorded under capital leases are amortized on a straight line method, using rates based on the estimated useful life of the asset or based on the lease term as appropriate. Obligations recorded under the capital leases are reduced by rental payments net of imputed interest.

1. ACCOUNTING POLICIES (continued)

Inventories

Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) or net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

Allowance for funds used during construction

Regulatory authorities require the telephone companies to provide for a return on capital invested in new telephone plant while under construction by including an allowance for funds used during construction as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Consulting services

The consulting services under contract to clients, principally foreign telecommunications organizations, are included in other operations. The accounting method generally known as percentage-of-completion is used in the determination of net income for such operations.

Real estate activities

Certain indirect costs, including interest, are capitalized. The interest capitalized amounted to $44.6 million for the year ended December 31, 1985.

Income taxes

BCE and its subsidiaries use the tax allocation basis of accounting for income taxes. The corporation provides for income taxes based on accounting income for tax purposes included in the financial statements, regardless of when such income is subject to taxes under the tax laws. Investment tax credits reduce the provision for income taxes in the same periods in which the related expenditures are charged to earnings.

2. INVESTMENTS IN ASSOCIATED COMPANIES

BCE uses the equity method of accounting for investments in companies where the ownership ranges from 20% to 50%. Under this accounting method, BCE's proportionate share of income of such companies, from the dates of their acquisition, net of amortization of excess purchase price over net assets acquired, is taken into income and added to the cost of investments. Dividends received by BCE from these companies reduce the carrying amounts of the investments. The principal associated company of BCE is TransCanada PipeLines Limited (TCPL), which was acquired in late 1983.

2. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

The following is a summary of the investments in associated companies for the last three years:

		millions of dollars				
		TransCanada PipeLines Limited(1)	Maritime Telegraph and Telephone Company, Limited (MT&T)(2)	Bruncor Inc.(3)	Other companies	Total
1983	Balance — January 1, 1983	—	$57.0	$52.0	$44.1	$ 153.1
	BCE's ownership	—	*33.8%*	*34.3%*		
	Cost of investments	$601.1	$ —	$ —	$ .6	$ 601.7
	Equity income	2.2	9.6	8.5	3.9	24.2
	Dividends received	(2.4)	(5.2)	(5.3)	(2.5)	(15.4)
	Other adjustments	—	(.3)	(.5)	(.9)	(1.7)
	Balance — December 31, 1983	$600.9	$61.1	$54.7	$45.2	$ 761.9
	BCE's ownership	*42.3%*	*32.5%*	*32.5%*		
1984	Cost of investments	$108.8	$ —	$ —	$ 4.3	$ 113.1
	Equity income	91.5	9.5	8.7	5.4	115.1
	Dividends received	(42.1)	(5.6)	(5.6)	(1.0)	(54.3)
	Other adjustments	18.1	.1	.1	(8.8)	9.5
	Balance — December 31, 1984	$777.2	$65.1	$57.9	$45.1	$ 945.3
	BCE's ownership	*47.2%*	*31.4%*	*31.3%*		
1985	Cost of investments	$ 51.3	$ 3.0	$10.5	$36.9	$ 101.7
	Equity income	101.6	11.1	8.1	2.7	123.5
	Dividends received	(51.9)	(6.1)	(6.0)	(1.0)	(65.0)
	Other adjustments	5.9	.2	—	(.6)	5.5
	Balance — December 31, 1985	$884.1	$73.3	$70.5	$83.1	$1,111.0
	BCE's ownership	*47.8%*	*31.4%*	*30.7%*		

(1) In December 1983, BCE acquired 38,449,192 (adjusted for a two-for-one split in February 1984) common shares of TCPL at a cash price of $15.75 per share, which represented approximately 42.3% of the outstanding shares at December 31, 1983. During 1984, 6,509,825 additional shares were acquired (4,000,000 in the market, in July 1984, at $17.50 per share and 2,509,825 through TCPL's dividend reinvestment plan at an average price of $15.36 per share). During 1985, 2,314,839 common shares were acquired through TCPL's dividend reinvestment plan at an average price of $22.17 per share. BCE's equity income in TCPL, which is after deducting amortization of goodwill over 20 years, is based on Income, before provisions, applicable to common shares.

(2) At December 31, 1985, BCE owned 6,730,697 (adjusted for a three-for-one split in April 1985) common shares of MT&T. However, under a statute passed in 1966 by the Legislature of Nova Scotia, no more than 1,000 shares may be voted by any one shareholder.

(3) On July 1, 1985, Bruncor Inc. became the parent corporation of The New Brunswick Telephone Company, Limited.

2. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

Results and financial position of TCPL
The following is a summary of TCPL's reported results and financial position:

	1985	1984*	1983*
	millions of dollars		
Revenues	**$4,681.9**	$4,459.6	$3,633.3
Income before provisions	**$ 278.1**	$ 265.9	$ 228.1
Investment and asset provisions	**$ 115.6**	$ 18.0	$ 9.6
Net income	**$ 162.5**	$ 247.9	$ 218.5
Income, before provisions, applicable to common shares	**$ 233.3**	$ 224.4	$ 191.8

	December 31, 1985	December 31, 1984*
	millions of dollars	
Total assets	**$6,321.8**	$6,291.3
Total liabilities	**$4,503.3**	$4,580.3
Preferred shareholders' equity	**$ 445.0**	$ 442.9
Common shareholders' equity	**$1,373.5**	$1,268.1

* Restated

3. NON-CONSOLIDATED FINANCE SUBSIDIARIES

In the consolidated income statement of BCE, income from operations and foreign currency gains or losses of the finance subsidiaries of Northern Telecom Limited are included in Other income — miscellaneous; their income taxes are included with consolidated income taxes. The interest paid by Northern Telecom Limited and its consolidated subsidiaries to the finance subsidiaries, which is included in consolidated interest on long term debt, amounted to $34.3 million for the year ended December 31, 1985 (1984 — $37.9, 1983 — $44.0).

The following is a summary of the combined financial data of these companies:

	1985	1984	1983
	millions of dollars		
Income	**$103.4**	$86.2	$78.4
Income from operations	**$ 54.3**	$61.5	$54.2
Net income	**$ 44.6**	$55.9	$49.8

	December 31, 1985	December 31, 1984
	millions of dollars	
Total assets	**$1,171.3**	$750.2
Total liabilities	**$ 479.9**	$272.1
Shareholders' equity	**$ 691.4**	$478.1

4. INCOME TAXES

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1985	1984	1983
Statutory income tax rate in Canada	**48.5%**	47.6%	48.1%
(i) Allowance for funds used during construction, net of applicable depreciation adjustment	**(.1)**	(.1)	(.3)
(ii) Reduction of Canadian Federal taxes applicable to manufacturing profits	**(.5)**	(.8)	(.1)
(iii) Equity in net income of associated companies	**(2.8)**	(2.9)	(.8)
(iv) Tax incentives on research and development expenditures	**(4.2)**	(2.7)	(3.2)
(v) Inventory credit	**(.4)**	(.3)	(.3)
(vi) Difference between Canadian statutory rates and those applicable to foreign subsidiaries	**(.5)**	(.8)	(.9)
(vii) Other	**(.3)**	—	(.2)
Effective income tax rate	**39.7%**	**40.0%**	**42.3%**

Details of the income taxes are as follows:

	1985	1984	1983
		millions of dollars	
Income before income taxes, minority interest and extraordinary items			
Canadian	**$1,524.7**	$1,499.7	$1,273.7
Foreign	**608.9**	368.2	222.4
Total income before income taxes, minority interest and extraordinary items	**$2,133.6**	**$1,867.9**	**$1,496.1**
Income taxes			
Canadian	**$ 622.4**	$ 634.1	$ 569.0
Foreign	**224.9**	113.1	63.9
Total income taxes	**$ 847.3**	**$ 747.2**	**$ 632.9**
Income taxes			
Current	**$ 681.4**	$ 585.3	$ 541.6
Deferred	**165.9**	161.9	91.3
Total income taxes	**$ 847.3**	**$ 747.2**	**$ 632.9**

The deferred income taxes for 1985 include $113.8 million, mainly due to tax effects of Northern Telecom's contracts in progress, classified as current liabilities and included in taxes accrued. The remaining deferred income taxes result principally from deductions for tax purposes, in respect of plant, in excess of amounts currently charged to operations.

5. EXTRAORDINARY ITEMS

	1985	1984	1983
		millions of dollars	
(i) Reduction of income taxes, net of minority interest, arising from the utilization of prior years' tax losses of a subsidiary of Northern Telecom Limited.	—	—	$22.0
(ii) Increase in book value in subsidiaries, reported on a consolidated basis, resulting principally from the issuance of common shares by Northern Telecom Limited upon exercise of warrants and conversions of convertible debt securities. Under United States practice, this amount would be reported before extraordinary items, as non-operating income.	—	—	62.6
			$84.6

6. EARNINGS PER COMMON SHARE

Earnings per common share are based on weighted average shares outstanding.

For the computation of the earnings per share, assuming full dilution, the dividends on dilutive convertible preferred shares have been added back to income.

7. COMMITMENTS AS LESSEE

The future minimum lease payments under capital leases and operating leases that have initial non-cancellable lease terms in excess of one year, as of December 31, 1985, are as follows:

	millions of dollars	
	Capital leases	Operating leases
1986	$ 26.0	$156.7
1987	24.0	120.8
1988	22.2	94.6
1989	21.2	59.1
1990	15.2	30.3
Thereafter	112.4	113.6
Total future minimum lease payments	221.0	$575.1
Less: Estimated executory costs	83.0	
Net minimum lease payments	138.0	
Less: Imputed interest	64.2	
Present value of net minimum lease payments	**$ 73.8**	

Rental expense applicable to all operating leases for the year 1985 was $215.4 million (1984 — $191.8, 1983 — $166.1).

8. INVENTORIES

	December 31, 1985	December 31, 1984
	millions of dollars	
Raw materials	$ 362.5	$ 432.5
Work-in-process	393.0	444.4
Finished goods	464.4	342.9
	$1,219.9	$1,219.8

9. PROPERTY, PLANT AND EQUIPMENT

	December 31, 1985		December 31, 1984	
	millions of dollars			
	Cost	Net of accumulated depreciation	Cost	Net of accumulated depreciation
Telecommunications operations				
Buildings, plant and equipment	$15,632.8	$10,221.3	$14,641.7	$ 9,811.9
Land	89.2	89.2	90.4	90.4
Plant under construction	289.6	289.6	243.6	243.6
Material and supplies	77.5	77.5	71.5	71.5
	16,089.1	10,677.6	15,047.2	10,217.4
Telecommunications equipment manufacturing				
Buildings, plant and equipment	2,395.4	1,452.5	1,899.1	1,114.5
Land	34.5	34.5	28.8	28.8
	2,429.9	1,487.0	1,927.9	1,143.3
Other operations				
Real estate properties				
Commercial	281.1	276.8	100.7	100.6
Land held for future development	649.9	649.9	—	—
Other	159.4	151.1	—	—
	1,090.4	1,077.8	100.7	100.6
Buildings, plant and equipment	393.1	240.8	299.0	180.7
Land	14.3	14.3	13.6	13.6
	1,497.8	1,332.9	413.3	294.9
	$20,016.8	$13,497.5	$17,388.4	$11,655.6
Capitalized leases included in the above amounts	$ 105.7	$ 70.2	$ 70.2	$ 41.4

10. DEBT DUE WITHIN ONE YEAR

	December 31, 1985	December 31, 1984
	millions of dollars	
Long term debt — current portion	$509.1	$291.9
Notes payable	200.4	513.0
Bank advances	24.1	15.7
	$733.6	$820.6

11. LONG TERM DEBT

					Total outstanding December 31, 1985	1984
					millions of dollars	
BCE						
$11\frac{5}{8}\%$ Notes due 1990					$ 50.0	$ —
$10\frac{1}{4}\%$ Notes due 1990					100.0	—
Total — BCE					***150.0***	—
Bell Canada						
Rate of interest	$4.8\text{-}7\frac{7}{8}\%$	$8\text{-}9\frac{7}{8}\%$	$10\text{-}12\frac{3}{4}\%$	$13\frac{3}{8}\text{-}16\%$		
First mortgage bonds						
Due 1985	$ —	$ —	$ —	$ —	—	60.0
1986	35.0	2.0	—	—	37.0	37.0
1987	35.0	2.0	—	—	37.0	37.0
1988	119.9	2.0	—	—	121.9	118.1
1989	69.9	11.5	—	—	81.4	77.5
1990	30.0	52.6	—	—	82.6	82.6
1991-2000	487.2	590.0	71.0	—	1,148.2	1,122.3
2001-2004	16.7	72.7	—	—	89.4	84.5
	793.7	**732.8**	**71.0**	**—**	**1,597.5**	**1,619.0**
Debentures and notes						
Due 1985	—	—	—	—	—	200.0
1986	—	83.9	60.0	—	143.9	139.3
1987	142.5	—	—	—	142.5	134.2
1988	2.7	—	—	—	2.7	2.0
1989	2.7	—	—	100.0	102.7	102.0
1990	2.7	—	22.0	—	24.7	33.2
1991-2000	57.2	—	125.0	334.6	516.8	356.7
2001-2010	—	909.0	425.0	279.5	1,613.5	1,442.9
	207.8	**992.9**	**632.0**	**714.1**	**2,546.8**	**2,410.3**
Other						
Mortgage (due in instalments to 1995 — 9% interest)					37.5	37.8
Obligations under capital leases					24.2	21.2
Total — Bell Canada					***4,206.0***	***4,088.3***
Daon Development Corporation					***879.6***	—
Other subsidiaries (including $443.7 million (1984 — $297.2) due to non-consolidated finance subsidiaries)					***913.2***	***672.9***
Sub-total — BCE consolidated					***6,148.8***	***4,761.2***
Less: Due within one year					509.1	291.9
Total — BCE consolidated					**$5,639.7**	**$4,469.3**

11. LONG TERM DEBT (continued)

Interest payments under BCE's 10 ¼% Notes due 1990 have been converted to a floating interest rate by way of an interest rate conversion agreement.

The first mortgage bonds of Bell Canada are secured by a first mortgage and a floating charge of Bell Canada.

First mortgage bonds of Bell Canada include (US) $518 million maturing from 1988 to 2004. Debentures and notes include (US) $910 million maturing from 1986 to 2010 and 100 million Swiss francs maturing in 1993.

At December 31, 1985, the consolidated debt of Daon Development Corporation (Daon) included project debt amounting to $726.7 million, of which $411.9 million is limited and non-recourse debt secured by individual properties of Daon or mortgages and agreements for sale, and is serviced only from cash generated by the individual assets securing the debt. Bank indebtedness and debentures payable amounted to $152.9 million and are secured principally by fixed charges against certain properties and a floating charge against certain other properties. The interest on bank indebtedness and debentures will be satisfied by Daon to October 31, 1986, by the issuance of its common shares.

At December 31, 1985, the debt of non-consolidated finance subsidiaries of Northern Telecom Limited, due to third parties, was $191.0 million (1984 — $93.9).

At December 31, 1985, the estimated amounts of long term debt payable by the corporation in the years 1986 to 1990 were $509.1, $369.0, $290.8, $272.6 and $450.1 million, respectively.

12. PREFERRED SHARES

Authorized

The restated articles of incorporation of BCE provide for an unlimited number of first preferred shares and second preferred shares. The articles authorize the Directors to issue such shares in one or more series and to fix the number of shares of each series and the conditions attaching thereto prior to their issue.

	December 31, 1985		December 31, 1984	
	dollars in millions			
Outstanding	Number of shares	Stated capital	Number of shares	Stated capital
First Preferred Shares				
$2.25 shares, series C*	—	$ —	1,135,535	$ 34.1
$1.80 shares, series F	**2,492,717**	**49.9**	3,042,678	60.8
$1.96 shares, series G	**271,169**	**6.8**	354,414	8.9
$2.05 shares, series H	**1,030,306**	**20.6**	1,884,484	37.7
$2.70 shares, series I	**11,781,918**	**235.6**	11,802,733	236.0
Aggregate stated capital of outstanding first preferred shares		**$312.9**		**$377.5**
Second Preferred Shares, Series One**	**1,537,427**	**$153.7**	**3,037,427**	**$303.7**

* The $2.25 preferred shares were convertible on the basis of one preferred share for .84 of a common share. Shares outstanding (24,019) on October 31, 1985, were redeemed on that date at $31.80 per share, including accrued dividend of $0.30.

** These shares have an annual dividend of $9 per share. Upon consolidation, these shares and related dividends have been eliminated in the consolidated financial statements of BCE, because they are held by Bell Canada, a wholly-owned subsidiary. These shares have a redemption value equal to their stated capital and, under applicable corporate legislation, have to be disposed of by Bell Canada or redeemed by BCE within five years from April 28, 1983.

12. PREFERRED SHARES (continued)

Following is a brief summary of the material characteristics of the first preferred shares:

	Redeemable at BCE's option	Preferred to common conversion basis	Convertible to	Number of shares converted at December 31, 1985	Purchase fund requirements (e)
First Preferred Shares (a)					
$1.80 shares	On Oct. 2, 1986, at $21.20 per share to Oct. 2, 1991, and at reducing amounts thereafter to $20 after Oct. 2, 2006.	1 for .67	Dec. 31, 1992	602,083 including 1985 — 549,961 (1984 — 44,272) (1983 — 7,850)	Quarterly 26,250 shares
$1.96 shares	Currently for partial redemption at $26.25 per share to May 1, 1986, and at reducing amounts thereafter to $25 after May 1, 1990. (b)	1 for 1.2	May 1, 1990	6,728,831 including 1985 — 83,245 (1984 — 156,632) (1983 — 281,156)	Quarterly 87,500 shares commencing in 1986
$2.05 shares	For partial redemption, on April 15, 1986, at $21.50 per share to April 15, 1987, and at reducing amounts thereafter to $20 after April 15, 1992. (c)	1 for 1	Apr. 15, 1992	8,969,694 including 1985 — 854,178 (1984 — 1,973,430) (1983 — 4,454,467)	Quarterly 125,000 shares commencing in 1988
$2.70 shares	On March 15, 1988, at $21.20 per share to March 15, 1989, and at reducing amounts thereafter to $20 after March 15, 1992. (d)	1 for 1	Mar. 15, 1992	30,582 including 1985 — 20,815 (1984 — 5,965) (1983 — 3,702)	(e)(2)

(a) All the first preferred shares are convertible into common shares. The first preferred shareholders are entitled to cumulative dividends at the respective rates set out in the titles of each series and have one vote per share.

(b) Since fewer than 1,050,000 of the $1.96 preferred shares remain outstanding, BCE may redeem all, but not part, of such shares at $25 per share at any time.

(c) Since fewer than 1,500,000 of the $2.05 preferred shares remain outstanding, BCE may redeem all, but not part, of such shares at $20 per share at any time.

(d) In the event that not more than 1,771,875 of the $2.70 preferred shares remain outstanding, BCE may redeem all, but not part, of such shares at $20 per share.

(e) Purchase funds:
Under the terms and conditions of the purchase funds,
(1) BCE shall make all reasonable efforts to purchase the required number of shares in the open market for cancellation at a price not exceeding the stated capital per share plus costs of purchase. To the extent that BCE is unable to purchase such shares, the undertaking is cumulative to a maximum of two years or eight quarters as the case may be, including the current period requirements.

At December 31, 1985, 405,200 of the $1.80 preferred shares had been purchased and cancelled. No shares were purchased during the year ended December 31, 1985.

12. PREFERRED SHARES (continued)

(2) BCE shall make all reasonable efforts to purchase in the open market for cancellation 1.25% of the $2.70 preferred shares outstanding on March 15, 1992, in each calendar quarter, commencing with the calendar quarter ending June 30, 1992, at a price not exceeding $20 per share plus costs of purchase. To the extent that BCE is unable to purchase such shares, the undertaking shall be cumulative in the calendar quarters of the same calendar year, after which it shall be extinguished.

Taking into account purchases to December 31, 1985, the maximum aggregate stated capital of shares that BCE may be required to purchase, if available pursuant to the terms of the purchase funds, in the years 1986 to 1990 are $12.6, $2.1, $12.1, $12.1 and $2.7 million, respectively.

13. COMMON SHARES

Authorized: an unlimited number of common shares

	December 31, 1985		December 31, 1984	
	dollars in millions			
	Number of shares	Stated capital	Number of shares	Stated capital
Outstanding	**246,046,614**	**$3,381.5**	233,482,383	**$2,912.0**

Number of common shares issued during the last three years are as follows:

	1985	1984	1983
For cash			
Underwritten issue	—	—	12,600,000
Shareholder Dividend			
Reinvestment and Stock Purchase Plan	**9,526,150**	11,668,509	8,752,125
Employees' Savings Plan (1966)	**310,257**	480,461	629,364
Conversion of preferred shares	**2,276,542**	2,197,894	4,804,639
Optional Stock Dividend Program	**451,282**	556,228	570,320
On acquisition of subsidiaries	—	3,541,509	—
	12,564,231	**18,444,601**	**27,356,448**

Stock options

On May 1, 1985, the shareholders of the corporation approved the Long-Term Incentive (Stock Option) Program (1985) (the "Plan"). Under the Plan, options may be granted to officers and other key employees of BCE and of its subsidiaries to purchase common shares of BCE at a subscription price of 100% of market value. The options are exercisable during a period not to exceed ten years. The right to exercise options accrues over a period of four years of continuous employment. No options are exercisable during the first twelve months after the date of the grant. Simultaneously with the grant of an option, the corporation may also grant the right to a special compensation payment ("SCP") (payable, in accordance with the terms of the Plan, in cash or in shares of BCE). The amount of any SCP is equal to the increase in market value of the number of BCE shares covered by the SCP (which number may not exceed the number of shares covered by the option to which it is related) from the date of grant of the SCP to the date of exercise of the option to which the SCP is related.

At December 31, 1985, 5,000,000 common shares were authorized for issuance under the Plan. Shares covered by options granted with respect to any year may not exceed one-half of one per cent of the outstanding common shares of the corporation at the end of the immediately preceding year.

13. COMMON SHARES (continued)

As of February 13, 1986, options covering 276,406 shares were outstanding: 126,656 granted, with respect to the year 1984, at an exercise price of $39.375 per share; and 149,750 granted, with respect to the year 1985, at an exercise price of $37.6875 per share. As of such date, none of the options were exercisable. In addition, SCPs have been granted to the same key employees covering the same number of shares as the options to which the SCPs are related.

Additional common shares reserved at December 31, 1985 — 29,533,084:

12,453,923 shares for issuance under the Shareholder Dividend Reinvestment and Stock Purchase Plan.

14,807,746 shares for issuance upon conversion of all convertible preferred shares.

2,271,415 shares for issuance under the Optional Stock Dividend Program.

14. FOREIGN EXCHANGE ADJUSTMENT

Following is an analysis of the foreign exchange adjustment included in the common shareholders' equity resulting from self-sustaining foreign operations:

	1985	1984	1983
		millions of dollars	
Balance at beginning of year	**$ 70.1**	**$23.8**	**$22.3**
Translation adjustments for the year	**67.1**	46.3	1.5
Balance at end of year	**$137.2**	**$70.1**	**$23.8**

15. UNUSED BANK LINES OF CREDIT

At December 31, 1985, unused bank lines of credit, generally available at the prime bank rate of interest, amounted to approximately $1,335 million.

16. CHANGES IN WORKING CAPITAL

Increase in working capital:

	1985	1984	1983
		millions of dollars	
(Increase) decrease in current assets:			
Accounts receivable	**$(493.3)**	$(489.7)	$(181.0)
Inventories	**(.1)**	(514.1)	(98.7)
Other current assets	**(27.6)**	29.3	(33.0)
Increase (decrease) in current liabilities:			
Accounts payable	**255.0**	257.1	180.5
Advanced billing and payments	**11.2**	2.6	(13.1)
Dividends payable	**14.0**	20.5	18.9
Taxes accrued	**110.5**	39.8	27.0
Interest accrued	**11.1**	9.1	(3.2)
	$(119.2)	**$(645.4)**	**$(102.6)**

17. QUARTERLY FINANCIAL DATA

Summarized consolidated quarterly financial data (in millions of dollars, except per share amounts):

	Three months ended			
1985	Mar. 31	June 30	Sept. 30	Dec. 31
Telecommunications operations				
Operating revenues	$1,446.8	$1,497.7	$1,523.6	$1,564.1
Net revenues	433.5	443.9	457.3	400.4
Telecommunications equipment manufacturing				
Revenues	1,311.2	1,499.2	1,339.5	1,616.4
Gross profit	488.4	559.0	498.3	572.7
Net revenues	129.1	173.7	117.1	161.0
Other operations				
Operating revenues	236.3	356.8	429.2	436.6
Net revenues	35.9	53.3	41.5	47.5
Total revenues	**2,994.3**	**3,353.7**	**3,292.3**	**3,617.1**
Net income	255.4	274.5	250.8	270.1
Net income applicable to common shares	244.4	263.7	240.4	260.5
Earnings per common share	$1.04	$1.11	$1.00	$1.07
Assuming full dilution	$1.01	$1.08	$ .98	$1.05
Average common shares outstanding (thousands)	234,791	236,927	239,352	242,993

	Three months ended			
1984	Mar. 31	June 30	Sept. 30	Dec. 31
Telecommunications operations				
Operating revenues	$1,340.2	$1,372.3	$1,399.3	$1,429.1
Net revenues	365.4	391.4	426.0	402.9
Telecommunications equipment manufacturing				
Revenues	882.5	1,034.9	1,014.7	1,388.9
Gross profit	336.9	407.5	394.8	539.7
Net revenues	73.2	110.4	103.1	183.0
Other operations				
Operating revenues	136.0	152.9	195.0	232.9
Net revenues	19.2	24.3	35.4	33.0
Total revenues	**2,358.7**	**2,560.1**	**2,609.0**	**3,050.9**
Net income	202.8	227.4	248.3	261.8
Net income applicable to common shares	190.7	215.9	237.0	250.6
Earnings per common share	$.88	$.98	$1.06	$1.10
Assuming full dilution	$.86	$.96	$1.03	$1.07
Average common shares outstanding (thousands)	216,339	219,279	222,739	228,366

18. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA WITH UNITED STATES GAAP

(millions of dollars, except per share amounts)

	Three months ended			
1985	Mar. 31	June 30	Sept. 30	Dec. 31
Net income, as reported	$255.4	$274.5	$250.8	$270.1
Adjustments				
Foreign exchange (a)	(45.6)	15.6	(13.4)	(25.2)
Equity in net income of associated companies (b)	(11.4)	(6.8)	(33.0)	(29.8)
Net income — U.S. GAAP	**$198.4**	**$283.3**	**$204.4**	**$215.1**
Earnings per common share — U.S. GAAP	$.80	$1.15	$.81	$.84

	Three months ended			
1984	Mar. 31	June 30	Sept. 30	Dec. 31
Net income, as reported	$202.8	$227.4	$248.3	$261.8
Adjustments				
Foreign exchange (a)	(37.6)	(37.7)	13.1	(9.1)
Equity in net income of associated companies (b)	(4.0)	6.0	6.1	(10.7)
Net income — U.S. GAAP	**$161.2**	**$195.7**	**$267.5**	**$242.0**
Earnings per common share — U.S. GAAP	$.69	$.84	$1.15	$1.01

	Year ended December 31		
	1985	1984	1983
Income before extraordinary items, as reported	**$1,050.8**	$940.3	$745.2
Adjustments			
Foreign exchange (a)	**(68.6)**	(71.3)	1.3
Extraordinary items (c)	**—**	—	62.6
Equity in net income of associated companies (b)	**(81.0)**	(2.6)	—
Income before extraordinary items — U.S. GAAP	**901.2**	866.4	809.1
Extraordinary items (note 5 (i))	**—**	—	22.0
Net income — U.S. GAAP	**$ 901.2**(d)	**$866.4**(d)	**$831.1**
Earnings per common share — U.S. GAAP			
before extraordinary items	**$3.60**	$3.70	$3.78
after extraordinary items	**$3.60**	$3.70	$3.89

(a) Difference arising from the method of accounting, under Canadian GAAP, for unrealized foreign currency gains and losses on long term debt and United States Financial Accounting Standards Board's Statement No. 52 — Foreign Currency Translation.

18. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA WITH UNITED STATES GAAP (continued)

(b) Changes in equity in net income of associated companies of BCE, principally as a result of accounting, under Canadian GAAP, for unrealized foreign currency gains and losses.

(c) The amount, reported as extraordinary items in accordance with Canadian GAAP, would be reported before extraordinary items under U.S. GAAP (see note 5 (ii)).

(d) If early retirement incentive plans in 1985 and 1984 had been treated in accordance with the United States Financial Accounting Standards Board's Statement No. 74: Accounting for Special Termination Benefits Paid to Employees, net income for those years would have decreased by $28.6 million and $30.3 million, respectively.

19. PENSIONS

BCE and most of its subsidiary companies have non-contributory defined benefit plans which provide for service pensions based on length of service and rates of pay for substantially all their employees.

The policy is to fund pension costs through contributions based on various actuarial cost methods as permitted by pension regulatory bodies. Such costs are funded as accrued and reflect actuarial assumptions regarding salary projection and future service benefits. The provision for pension costs was $296.0 million for the year ended December 31, 1985 (1984 — $271.3, 1983 — $271.8).

In compliance with the United States Financial Accounting Standards Board's Statement No. 36, the disclosure of the following information is required to exclude actuarial assumptions regarding salary projection and future service benefits. A comparison of accumulated plan benefits and plan net assets is provided as follows:

	December 31, 1984	December 31, 1983
	millions of dollars	
Actuarial present value of accumulated plan benefits		
Vested	$2,921.9	$2,491.8
Non-vested	452.9	401.0
	$3,374.8	**$2,892.8**
Net assets available for benefits — at market value	**$4,415.1**	**$3,896.8**

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.2% for 1984 and 7.0% for 1983.

In addition to pension benefits, BCE and its subsidiary companies provide certain health care and life insurance benefits for retired employees. The costs of such benefits, excluding life insurance, are paid out of current income, as benefits are received, and in 1985 amounted to $11.6 million (1984 — $9.3, 1983 — $7.6). Life insurance for retired employees is largely funded during their working lives.

20. INDUSTRY SEGMENTS INFORMATION

BCE and its subsidiaries operate principally in two reportable business segments:

1) Telecommunications operations, which includes the provision of voice, data, image, radio and television transmission, public exchange and private line teletypewriter and other telecommunications services, including directory operations; and

2) Telecommunications equipment manufacturing, which involves the design, development, manufacture and marketing of central office switching equipment, integrated business systems and terminals, transmission equipment, cable and outside plant products, and other telecommunications products and services.

In addition, "Other operations" includes international consulting services; printing, packaging and publishing; real estate and other fields.

The following table sets forth revenues, net revenues and supplementary data for each of the corporation's business segments for the years ended December 31:

	1985	1984	1983
	millions of dollars		
By segment			
Revenues			
Telecommunications operations	**$ 6,032.2**	$ 5,540.9	$5,076.1
Telecommunications equipment manufacturing	**5,766.3**(a)	4,321.0(a)	3,248.3(a)
Other operations	**1,458.9**	716.8	550.3
	$13,257.4	**$10,578.7**	**$8,874.7**
Intersegment revenues			
Telecommunications operations	**$ —**	$ —	$ —
Telecommunications equipment manufacturing	**52.2**	57.6	55.7
Other operations	**67.3**	55.1	55.1
Eliminations	**(119.5)**	(112.7)	(110.8)
	$ —	**$ —**	**$ —**
Total revenues			
Telecommunications operations	**$ 6,032.2**	$ 5,540.9	$5,076.1
Telecommunications equipment manufacturing	**5,818.5**	4,378.6	3,304.0
Other operations	**1,526.2**	771.9	605.4
Eliminations	**(119.5)**	(112.7)	(110.8)
	$13,257.4	**$10,578.7**	**$8,874.7**
Total net revenues			
Telecommunications operations	**$ 1,721.4**	$ 1,568.4	$1,416.6
Telecommunications equipment manufacturing	**580.6**	475.3	306.8
Other operations	**192.2**	123.6	86.8
	$ 2,494.2	**$ 2,167.3**	**$1,810.2**

20. INDUSTRY SEGMENTS INFORMATION (continued)

	1985	1984	1983
		millions of dollars	
By segment			
Identifiable assets			
Telecommunications operations	**$11,882.0**	$11,212.6	$10,571.1
Telecommunications equipment manufacturing	**3,867.0**	3,355.8	2,213.2
Other operations	**2,278.7**	681.1	536.2
Eliminations	**(360.5)**	(258.4)	(198.8)
	17,667.2	14,991.1	13,121.7
Investments	**1,802.4**	1,423.4	1,182.5
General corporate assets	**1,113.8**(b)	1,071.5(b)	636.2(b)
Total assets as at December 31	**$20,583.4**	**$17,486.0**	**$14,940.4**
Depreciation			
Telecommunications operations	**$ 997.1**	$ 922.9	$ 849.4
Telecommunications equipment manufacturing	**278.8**	211.0	156.0
Other operations and general corporate	**36.3**	18.2	9.7
Total depreciation	**$ 1,312.2**	**$ 1,152.1**	**$ 1,015.1**
Gross capital expenditures			
Telecommunications operations	**$ 1,480.3**	$ 1,262.8	$ 1,211.1
Telecommunications equipment manufacturing	**623.8**	569.6	376.9
Other operations and general corporate	**322.8**	123.9	9.1
Total capital expenditures	**$ 2,426.9**	**$ 1,956.3**	**$ 1,597.1**

The following table sets forth information by geographic area for the years ended December 31:

	1985	1984	1983
		millions of dollars	
By geographic area (c)			
Revenues			
Canada	**$ 8,192.1**	$ 7,151.9	$ 6,506.9
U.S.A.	**4,392.5**	2,952.3	1,929.1
Other	**672.8**	474.5	438.7
	$13,257.4	**$10,578.7**	**$ 8,874.7**
Transfers between area			
Canada	**$ 794.7**	$ 828.1	$ 520.2
U.S.A.	**124.0**	121.4	65.9
Other	**52.6**	33.1	19.7
Eliminations	**(971.3)**	(982.6)	(605.8)
	$ —	**$ —**	**$ —**
Total revenues			
Canada	**$ 8,986.8**	$ 7,980.0	$ 7,027.1
U.S.A.	**4,516.5**	3,073.7	1,995.0
Other	**725.4**	507.6	458.4
Eliminations	**(971.3)**	(982.6)	(605.8)
	$13,257.4	**$10,578.7**	**$ 8,874.7**

20. INDUSTRY SEGMENTS INFORMATION (continued)

	1985	1984	1983
	millions of dollars		
By geographic area (c)			
Total net revenues before research and development expenses			
Canada	**$ 2,290.2**	$ 2,152.1	$ 1,927.0
U.S.A.	**1,021.0**	658.6	387.4
Other	**151.3**	104.2	77.4
	3,462.5	2,914.9	2,391.8
Research and development expenses	**(706.5)**	(543.1)	(429.2)
General corporate expenses	**(261.8)**	(204.5)	(152.4)
Other income (expenses)	**(360.6)**	(299.4)	(314.1)
Income before income taxes, minority interest and extraordinary items	**$ 2,133.6**	**$ 1,867.9**	**$ 1,496.1**
Identifiable assets			
Canada	**$14,711.3**	$13,636.2	$11,926.8
U.S.A.	**3,745.9**	2,307.8	1,324.4
Other	**626.6**	218.7	528.5
Eliminations	**(1,416.6)**	(1,171.6)	(658.0)
	17,667.2	14,991.1	13,121.7
Investments	**1,802.4**	1,423.4	1,182.5
General corporate assets	**1,113.8**(b)	1,071.5(b)	636.2(b)
Total assets as at December 31	**$20,583.4**	**$17,486.0**	**$14,940.4**

(a) Telecommunications equipment manufacturing includes revenues of $1,086.3 million (1984 — $846.3, 1983 — $743.2) from Bell Canada and other telephone subsidiary and associated companies of BCE. These revenues are not eliminated on consolidation. Telecommunications equipment manufacturing revenues of Northern Telecom Limited from Bell Canada are at sale prices and terms as low as those offered to the most favoured customers of Northern Telecom Limited for like materials and services under comparable conditions.

(b) General corporate assets are principally cash, temporary cash investments and deferred unrealized foreign currency losses.

(c) The point of origin (the location of the selling organization) of revenues and the location of the assets determine the geographic area.

21. SUBSEQUENT EVENT

On March 3, 1986, BCE issued 5,000,000 of its common shares at a price of $38.362 per share to underwriters in Japan, pursuant to an underwriting agreement entered into on February 22, 1986.

Current Cost Accounting

Supplementary Information Reporting the Effects of Changing Prices (Unaudited)

The following supplementary information has been prepared in accordance with recommendations of the Canadian Institute of Chartered Accountants (CICA).

Bell Canada Enterprises Inc. (BCE) recommends caution in interpreting these disclosures because they are still in an experimental state. No general consensus has emerged on the concepts, interpretation, or usefulness of the information, and BCE believes that these disclosures may not be suitable for purposes of valuation of the corporation or its assets, or for reformulation into traditional financial measures or ratios. The determination of current costs is a subjective process based on management's estimates and assumptions regarding replacement costs, impacts of technology and price movements. Intercompany comparability has not been achieved.

In these disclosures, depreciation expense and cost of revenues have been computed by reference to the estimated current replacement cost of fixed assets and inventory having equivalent operating capability. The measurement of income on a current cost basis provides an indication of the corporation's ability to maintain its level of operating capability.

The financing adjustment gives recognition to the corporation's practice of financing its assets in part with borrowed funds, thereby alleviating the need for the common shareholders to be charged with the provision of all funds that may be required to maintain operating capability.

BCE has no reason to expect that the maintenance of its regulated or non-regulated operating capability will become impaired, and considers that the disclosure of income on a current cost basis is appropriate for purposes of complying with the CICA recommendations.

The measurement techniques used to determine current costs include externally and internally produced price indexes, appraisals, direct and reference pricing techniques, and engineering estimates of the impact of significant technological change. The bases for depreciation are the same as in the historical cost financial statements. The cost of revenues adjustment reflects the general movement in the costs of manufacturing inputs between the dates of their purchase or application to manufacturing processes and the dates of sale of the related finished products.

Consolidated Income Applicable to Common Shareholders on a Current Cost Basis Under an Operating Capability Concept of Capital (unaudited)

For the years ended December 31	**1985**	1984*
	millions of dollars	
Net income applicable to common shares as reported in the historical cost statements (page 25)	**$1,009.0**	**$ 930.0**
Add: dividends on first preferred shares	**41.8**	47.9
Income on a historical cost basis	**1,050.8**	977.9
Current cost adjustments		
— depreciation expense (a)	**(274.0)**	(300.8)
— cost of revenues (b)	**25.2**	28.6
— net income of associated companies on an equity basis (depreciation adjustment)	**(9.9)**	(8.8)
— minority interest	**(8.9)**	(6.2)
Income on a current cost basis	**783.2**	690.7
Financing adjustment (f)	**55.0**	66.6
Financing adjustment for associated companies	**3.4**	3.0
Dividends on first preferred shares	**(41.8)**	(47.9)
Income applicable to common shareholders on a current cost basis under an operating capability concept of capital	**$ 799.8**	**$ 712.4**

* Restated in average 1985 dollars

Current Cost Accounting
(continued)

Notes and Additional Information

For the years ended December 31	1985		1984	
	millions of dollars			
	Current cost	Historical cost	Current cost*	Historical cost
(a) Property, plant and equipment (net of accumulated depreciation) — at December 31	**$17,547.2**	**$13,497.5**	$16,404.0	$11,655.6
(b) Inventories — at December 31	**1,206.8**	**1,219.9**	1,280.7	1,219.8
(c) Net assets — at December 31	**11,362.2**	**7,309.0**	10,822.7	6,316.9

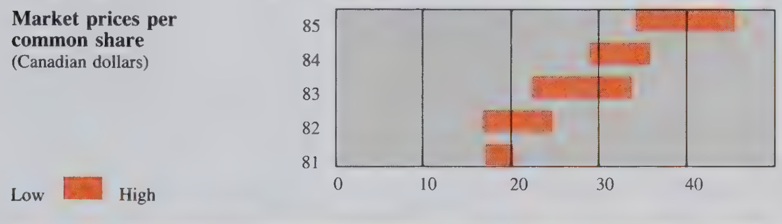
For the years ended December 31	1985	1984**
	millions of dollars	
(d) Total current cost increase (decrease) in property, plant and equipment and inventories held during the year	**$231.9**	$(295.8)
Effect of general inflation	**756.4**	632.6
Excess of general inflation over current cost changes	**524.5**	928.4
This difference of $524.5 million ($928.4 million in 1984**) is due to the price movements of the specific items and materials included in the corporation's property, plant and equipment and inventories and to the assumed application of new technologies, which are instrumental in dampening the effects of price changes.		
(e) Under CICA recommendations, no adjustment is made to historical cost income taxes		
— current portion of income taxes	**681.4**	608.8
— deferred portion of income taxes	**165.9**	168.4
(f) Financing adjustment based on current cost adjustments to depreciation expense and cost of revenues	**55.0**	66.6
Financing adjustment based on total current cost changes (note (d) above)	**51.3**	(72.4)
(g) General purchasing power gain on net monetary liabilities. This gain does not provide funds to the corporation.	**184.0**	164.1

* Restated in December 1985 dollars
** Restated in average 1985 dollars

Price Ranges of Common Shares

	1985		1984	
	High	**Low**	High	Low
Montreal and Toronto				
1st quarter	**\$39⅞**	**\$34¼**	\$33¾	\$29⅜
2nd quarter	**45¼**	**38⅝**	31½	29
3rd quarter	**44½**	**39¾**	34½	30⅝
4th quarter	**43⅝**	**40¼**	35¾	32⅛
NYSE consolidated tape (US \$)				
1st quarter	**\$29¼**	**\$26**	\$27	\$23
2nd quarter	**33**	**28⅛**	24⅜	22⅜
3rd quarter	**33**	**29⅜**	26⅜	23⅛
4th quarter	**31⅝**	**29¼**	27⅛	24½

Market prices per common share
(Canadian dollars)

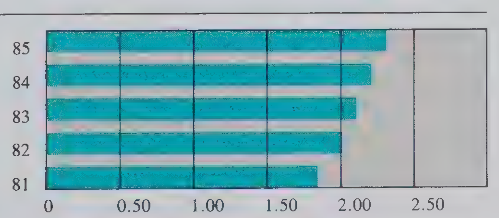


Dividends

Quarterly dividends of \$0.57 per common share were paid in 1985 (\$0.545 in 1984).

On November 27, 1985, an increase in the dividend on common shares was declared. The final 1985 quarterly dividend, which was paid on January 15, 1986, was raised to \$0.59. The indicated annual rate is now \$2.36, an increase of \$0.08 over the previous annual rate.

Dividend growth
\$



Number of Shareholders

At December 31, 1985, there were 332,440 registered holders of common shares.

Selected Financial and Other Data

	1985	1984	1983	1982	1981
Income statement data (millions of dollars)					
Revenues					
Local service	**$ 2,354.0**	$ 2,294.7	$ 2,224.2	$ 2,136.0	$ 1,918.3
Long distance service	**3,040.6**	2,739.4	2,481.3	2,276.6	1,972.0
Directory advertising and miscellaneous — net	**637.6**	506.8	370.6	278.5	249.9
Total telecommunications operations	**6,032.2**	5,540.9	5,076.1	4,691.1	4,140.2
Telecommunications equipment manufacturing	**5,766.3**	4,321.0	3,248.3	2,986.5	2,531.0
Other operations	**1,458.9**	716.8	550.3	733.7	718.7
Total revenues	**13,257.4**	**10,578.7**	**8,874.7**	**8,411.3**	**7,389.9**
Income before extraordinary items	**1,050.8**	940.3	745.2	611.5	546.8
Net income	**1,050.8**	940.3	829.8	615.4	555.5
Balance sheet data (millions of dollars)					
Total assets*	**$20,583.4**	$17,486.0	$14,940.4	$13,424.1	$12,451.2
Common equity*	**7,309.0**	6,316.9	5,306.9	4,256.8	3,859.1
Preferred shares* (redeemable)	**312.9**	377.5	423.6	522.4	361.6
Minority interest*	**1,893.6**	1,349.1	800.0	527.5	446.5
Long term debt* (including current portion)	**6,148.8**	4,761.2	4,527.0	4,801.0	4,729.3
Gross capital expenditures	**2,426.9**	1,956.3	1,597.1	1,759.6	1,713.9
Common share data					
Earnings per common share					
before extraordinary items	**$ 4.23**	$ 4.03	$ 3.46	$ 3.05	$ 2.95
after extraordinary items	**$ 4.23**	$ 4.03	$ 3.88	$ 3.07	$ 3.00
Assuming full dilution					
before extraordinary items	**$ 4.13**	$ 3.92	$ 3.37	$ 2.97	$ 2.86
after extraordinary items	**$ 4.13**	$ 3.92	$ 3.76	$ 2.99	$ 2.91
Dividends declared per common share	**$ 2.30**	$2.205	$2.105	$ 1.99	$ 1.84
Equity per common share*	**$29.71**	$27.06	$24.68	$22.68	$21.74
Return on common equity	**15.0%**	15.7%	14.7%	13.7%	14.0%
Other statistics					
Telephones in service* (thousands)	**9,618.0**	9,768.8	9,780.2	9,887.6	10,062.5
Network access services* (thousands)	**7,423.6**	7,144.5	6,886.9	6,721.5	6,649.6
Long distance messages (millions)	**977.5**	895.2	833.3	791.1	792.6
Number of employees* (thousands)	**108.3**	108.1	100.9	97.8	101.6

* At December 31

Shareholder Statistics

As at December 31	**1985**	1984	1983	1982	1981
Common shareholders by holdings					
1-99 shares	**139,093**	130,759	122,765	100,802	95,903
100-999 shares	**165,984**	161,681	153,232	136,608	135,440
1,000 shares and over	**27,363**	28,797	28,435	25,802	24,488
Total	**332,440**	321,237	304,432	263,212	255,831
Average number of common shares per registered holder	**740**	726	706	713	693
Total number of shareholders (including preferred)	**344,541**	335,412	321,140	284,378	271,478
Common shareholders by location					
Canada	**325,877**	314,804	298,439	257,625	250,389
Other	**6,563**	6,433	5,993	5,587	5,442
Total	**332,440**	321,237	304,432	263,212	255,831
Common shares by location					
Canada*	**231,332,364**	220,691,475	201,913,798	180,237,717	170,641,242
Other	**14,714,250**	12,790,908	13,123,984	7,443,617	6,839,673
Total	**246,046,614**	233,482,383	215,037,782	187,681,334	177,480,915

* Held by shareholders registered as residents of Canada

Canadian Taxes on Foreign Investors

Income Taxes

Dividends (including stock dividends) on BCE shares, paid or credited to non-residents of Canada, are subject to withholding tax at 25 per cent, unless reduced by treaty.

Under the United States-Canada Income Tax Convention, a withholding tax of 15 per cent applies to BCE dividends (including stock dividends) paid or credited to individuals residing in the United States, or corporations organized under the laws of the United States, that do not have a "permanent establishment" or a "fixed base" in Canada.

Gains on disposals of BCE shares by a non-resident of Canada are generally not subject to Canadian income tax, unless realized by the holder in connection with a business (including an "adventure in the nature of trade") carried on in Canada.

Estate and Succession Duties

There are no estate taxes or succession duties imposed by Canada or by any province in Canada other than succession duties imposed by the province of Quebec in respect of the transmission, by reason of death of the holder, of BCE shares.

However, based on proposed changes announced in the budget speech of the Quebec Minister of Finance on April 23, 1985, and the Quebec government budgetary and financial policy statement of December 18, 1985, all succession duties for all successions opened as of midnight April 23, 1985, will be abolished. As of December 31, 1985, legislation adopting this proposal had not been enacted.

Board of Directors

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Quebec, Quebec
President
Gagnon et Bélanger Inc.
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Milton, Ontario
(company director)

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Montreal, Quebec
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President and Chief
Executive Officer
Bell Canada

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Willowdale, Ontario
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A. Jean de Grandpré, O.C., Q.C.
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and Chief Executive Officer
Bell Canada Enterprises Inc.

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Chairman of the Board and Chief
Executive Officer
Northern Telecom Limited

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Mississauga, Ontario
(company director)

H. Clifford Hatch
Windsor, Ontario
Chairman, Executive
Committee of the Board
Hiram Walker Resources Ltd.
(producer of distilled spirits,
gas and oil)

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Consultant
TransCanada PipeLines Limited
(natural gas transmission
company)

Paul H. Leman, O.C.
Outremont, Quebec
(company director)

Helen L. Margison
Toronto, Ontario
(company director)

E. Neil McKelvey, Q.C.
Saint John, New Brunswick
Partner
McKelvey, Macaulay, Machum
(law firm)

John H. Moore, F.C.A.
London, Ontario
(company director)

Gérard Plourde, O.C.
Montreal, Quebec
Chairman of the Board
U A P Inc.
(automotive parts distributor)

Robert J. Richardson, Sc.D.
Westmount, Quebec
President
Bell Canada Enterprises Inc.

Lucien G. Rolland, O.C.
Montreal, Quebec
Chairman of the Board
and Chief Executive Officer
Rolland inc.
(manufacturer and distributor of
fine papers)

Alastair H. Ross
Calgary, Alberta
President
Allaro Resources Ltd.
(private oil and gas
exploration company)

Louise B. Vaillancourt, C.M.
Outremont, Quebec
President
Fondation Armand-Frappier
(non-profit research funding
organization)

Lynton R. Wilson
Mississauga, Ontario
President and Chief
Executive Officer
Redpath Industries Limited
(sugar refiners)

Committees of the Board of Directors

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P.H. Leman
E.N. McKelvey
J.H. Moore
G. Plourde
A.H. Ross
L.B. Vaillancourt

Management resources and compensation committee

J.W. Kerr — chairman
G.A. Burton
J.P. Gordon
H.C. Hatch
L.G. Rolland

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M. Bélanger
C.W. Daniel
H.L. Margison
J.H. Moore
R.J. Richardson
L.R. Wilson

Pension fund policy committee

J.P. Gordon — chairman
G.A. Burton
A.J. de Grandpré
E.N. McKelvey
R.J. Richardson

Officers

A. Jean de Grandpré
Chairman and
Chief Executive Officer

Robert J. Richardson
President

Gordon E. Inns
Executive Vice-President,
Planning

John E. Sinclair
Executive Vice-President,
Corporate

J. Stuart Spalding
Executive Vice-President,
Finance

Josef J. Fridman
Vice-President and
General Counsel

Guy Houle
Vice-President and
Corporate Secretary

Daniel O. Jarvis
Vice-President and
Treasurer

Donald R. Newman
Vice-President and
Comptroller

Investor Information

Transfer Offices for Stock

Canada:

BCE Shareholder Services
800 Square Victoria
Montreal;
483 Bay St.
Toronto

The Royal Trust Company
St. John's, Nfld.; Halifax;
Charlottetown;
Saint John, N.B.; Winnipeg;
Regina; Calgary; Edmonton;
Vancouver

Outside Canada — Common shares only:

American Transtech, Inc.
New York, N.Y.

The Royal Trust Company
London, England

Registrar for Stock

Canada:

BCE Shareholder Services
Montreal; Toronto

Montreal Trust Company
St. John's, Nfld.; Halifax;
Charlottetown;
Saint John, N.B.; Winnipeg;
Regina; Calgary; Edmonton;
Vancouver

Outside Canada — Common shares only:

American Transtech, Inc.
New York, N.Y.

The Royal Bank of Scotland plc.
London, England

Listing of Stock

Canada:

The Montreal Exchange
The Toronto Stock Exchange
Vancouver Stock Exchange

Outside Canada — Common shares only:

Belgium
Brussels Stock Exchange

France
Paris Stock Exchange

Germany
Frankfurt am Main,
Düsseldorf Stock
Exchanges

Japan
Tokyo Stock Exchange

Switzerland
Zürich, Basel, Geneva
Stock Exchanges

The Netherlands
Amsterdam Stock
Exchange

United Kingdom
The Stock Exchange

United States
New York Stock Exchange

Shareholder Inquiries

Mailing Address
Bell Canada Enterprises Inc.
Shareholder Services
P.O. Box 3500
Tour de la Bourse
Montreal, Quebec H4Z 1L3

Telephone
Montreal (514) 394-7111
Toronto (416) 581-3380

Sur demande, le vice-président et secrétaire de la Société vous fera volontiers parvenir un exemplaire français du rapport annuel.

Shareholder Dividend Reinvestment and Stock Purchase Plan

Shareholders wishing to acquire additional common shares of Bell Canada Enterprises Inc. can take advantage of the Shareholder Dividend Reinvestment and Stock Purchase Plan (DRP), which provides a convenient method for shareholders to reinvest their common share cash dividends in new common shares of Bell Canada Enterprises Inc. at 95 per cent of the average market price.

Participants in DRP may also invest monthly optional cash payments of up to $20,000, with a cumulative limit of $20,000 for each 12-month period ending on October 15, in new common shares of BCE at 100 per cent of the average market price.

Shareholders participating in DRP pay no brokerage commissions or service charges on the acquisition of these shares and all administrative costs of the plan are borne by BCE.

Additional information can be obtained by calling:

(514) 394-7122

The annual reports to shareholders of the public companies of the group may be obtained from those companies or by request to the Vice-President and Corporate Secretary of BCE.

Form 10-K
The Annual Report on Form 10-K is available from the date of its filing with the Securities and Exchange Commission in the United States by writing to:

The Vice-President and
Corporate Secretary
Bell Canada Enterprises Inc.
P.O. Box 321
Tour de la Bourse
Montreal, Quebec
H4Z 1G8

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